

FAQ : Combination Order

1. Question: What is a Combination Order?

Answer: Combination Order is a time spread which is the purchase and sale of two different series simultaneously with the same underlying. Each combination series is pre-defined by TFEX as a combination strategy with two legs in TFEX.

2. Question: Does TFEX allow combination order of SET50 Index Futures?

Answer: Yes, however a combination order for SET50 Index Futures must be a time spread. A time spread is a simultaneous purchase and sale of 2 series with different maturity date. For example, S50M12U12 stands for a purchase S50U12 and a sale S50M12 at the same time.

3. Question: What is the difference between placing 2 separate buy/sell outright orders (long S50M12 and short S50U12) and a combination order (long S50M12U12)?

Answer: There are 2 distinct differences between these 2 types of order.

Order Matching

When an order is placed as a combination order, both series will have to meet the require conditions or they will not be matched. Whereas when placing 2 separate outright orders, only 1 order maybe matched while the other is not. For example, when placing a long S50U12 and a short S50M12, there is a chance that only the short S50M12 will be matched while the long S50U12 is not. However, if a long S50M12U12 combination order is placed, both series will have to be matched or not at all.

Order Placement

When placing 2 separate outright orders, both futures price must be specified. However for combination order, the quotation price will be the difference between the 2 series. For example, when placing short S50M12 and long S50U12 orders, prices such as 700 and 702 will have to be specified respectively. However, when placing a long S50M12U12, the quotation price will be 2.

4. Question: Who can place a combination order?

Answer: Any type of investors can place a combination order. There are no restrictions on who can place a combination order.

5. Question: Can combination order be place with a market price?

Answer: No. When placing a combination order, the price (spread) must always be specified.

6. **Question:** Will combination order matched only with combination order?

Answer: Not necessarily, combination order can match with either 2 outright orders or a combination order. Given that the price conditions are met.

7. **Question:** What is the difference between a buy combination order and a sell combination order?

Answer: Buy Combination

A buy combination order is a long in the far series and a short in the near series (buy far & sell near). For example, a buy combination order of S50M12U12 means long in S50U12 and short in S50M12.

Sell Combination

A sell combination order is a short in the far series and a long in the near series (sell far & buy near). For example, a sell combination order of S50M12U12 means short in S50U12 and long in S50M12.

8. **Question:** What is the benefit of a combination order and when should you use combination order?

Answer: There are many strategies involving the use of a combination order. The most common is using combination order to rollover an expiring position. For example, John may have a long position in S50M12 which will expire in 2 weeks. He wishes to rollover his position to the next expiring contract month. He could place a buy combination order on S50M12U12 which would effectively be the same as closing (shorting of S50M12) his current long position in S50M12 and opening a new long position in S50U12.

9. **Question:** Is there a price limit on combination order and how is it calculated?

Answer: Yes. The price limit of a combination order is calculated according to the following formula:

Price Limit of Combination Order = (Previous Day Settlement Price of Far Month – Previous Day Settlement Price of Near Month) \pm 10 points

For example, if the previous day settlement price of S50M12 and S50U12 is 700 points and 702 points respectively, then the price limit of a S50M12U12 is $(702 - 700) \pm 10 = 2 \pm 10$ points

Thus, Upper limit = 12 points

Lower Limit = - 8 points
