

## Asia Pac Derivatives

## Japan equity futures roll preview: Q1 2024

**Roll long Nikkei and Topix futures early**

As of the 27 Feb close, the Nikkei (NK) and Topix (TP) rolls traded 3bps and 13bps rich to JPY TONAR rates (based on forecasted gross dividends of 283 and 26.8 index points), respectively. Both rolls are statistically rich (>90<sup>th</sup> 5yr %-ile), consistent with the positive sentiment towards Japanese stocks, with both indices trading near all-time highs.

We think that long futures rollers should consider rolling early this quarter. While rolls are already statistically elevated, chances are that long rollers – who dominated during the last roll – will end up pushing roll costs even higher late this week or early next.

**Stop-loss levels for CTAs are likely relatively far from here**

Risks to rolling at these statistically rich levels would be a sell-off towards 37,379 on the Nikkei (-4.7% from here, ref 39,240). This is currently where our CTA model has stop-loss triggers for trend-following strategies (see exhibits 6 and 12 in this report: [Systematic Flows Monitor, 23 February 2024](#)). Therefore, we expect limited impact from CTA positioning on this quarter's Japanese equity futures rolls.

27 February 2024

Equity Derivatives  
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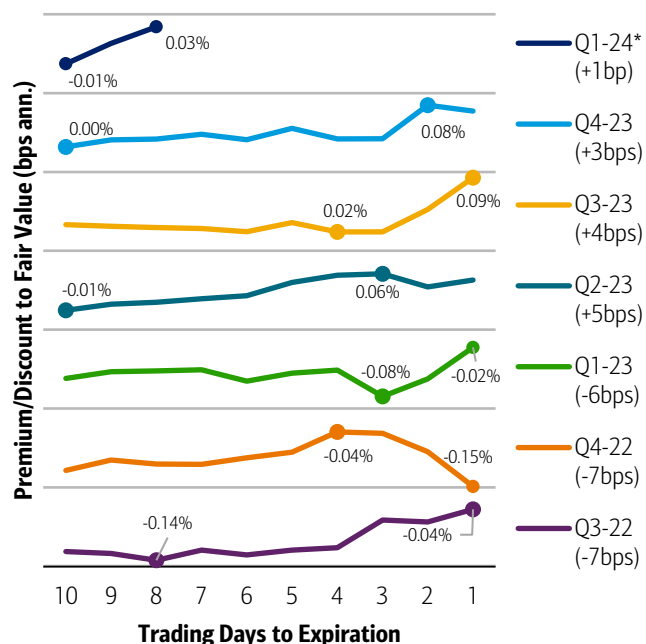
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# Nikkei 225 Mar-24/Jun-24 Futures Roll

## Nikkei 225 futures roll snapshot

### Exhibit 1: The evolution of Nikkei 225 futures quarterly roll spread richness/cheapness over the current QTD and prior six quarters

Positive number = Cost to a long futures roller  
Negative number = Benefit to a long futures roller



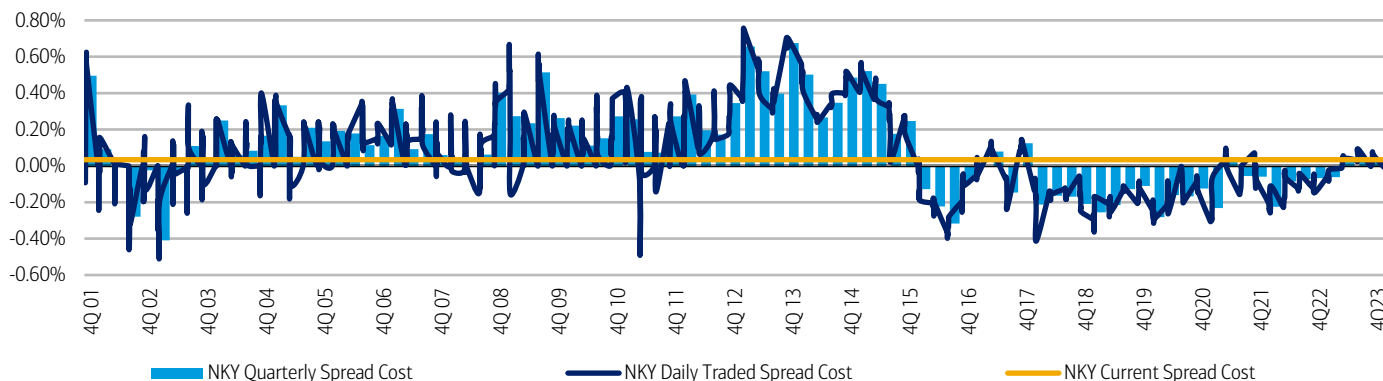
Source: BofA Global Research. Data as of 27-Feb-24. \*Data before completion of quarterly roll spread trading.

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Assuming cash collateralized at JPY TONAR\*\*, the cost of holding Nikkei 225 futures from Mar-24 expiry through Jun-24 expiry is currently 3bps rich annualised. Since 4Q 2001, the average quarterly cost of holding Nikkei 225 futures was 10bps rich. At current levels, the cost of rolling Nikkei futures ranks in the 39th percentile since the end of 2001 (Exhibit 2).

### Exhibit 2: The cost (assuming cash collateralized at JPY TONAR\*\*) of holding NKY futures over the next 3 months is quite rich versus recent history

The current level of 0.03% corresponds to the 39th percentile since 2001 and the 92nd 5-year percentile



Source: BofA Global Research. Data as of 27-Feb-24. Quarterly spread cost measured as a volume weighted average of daily roll spread costs over the final 10 days of each quarter's roll spread trading period. Daily spread costs shown for the final 10 days of each quarter. \*\*TONAR has replaced LIBOR in Japan.

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## Nikkei 225 futures prior roll (Dec-23/Mar-24) review

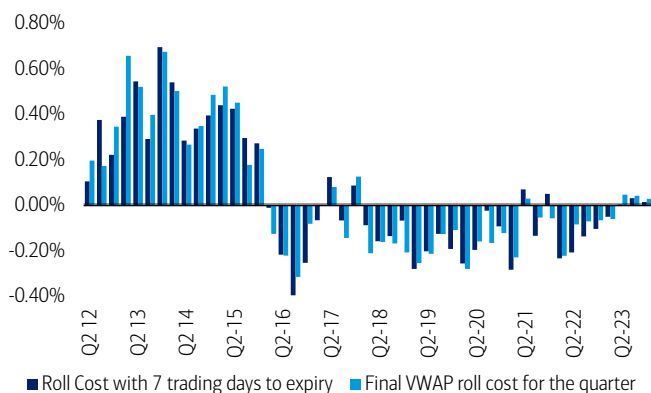
### The Dec roll richened in the last week

With 7 trading days to expiry, the roll was trading at 1bp rich, and the final VWAP roll cost for the quarter ended up at 3bps rich, after richening by an additional 2bps (Exhibit 3 and Exhibit 4).

The roll richened as roll activity picked up, suggesting that long rollers dominated the flow. As seen in Exhibit 1, the roll richened from 0bp to 8bps as the roll volume bars increased (Exhibit 5).

#### Exhibit 3: Nikkei 225 quarterly roll spread cost measured (1) with 7 days remaining for spread trading (2) on average over the entire

Roll spread cost measured on average over the entire quarter is typically not too dissimilar to the cost as measured over the final 7 days as volume peaks into expiry

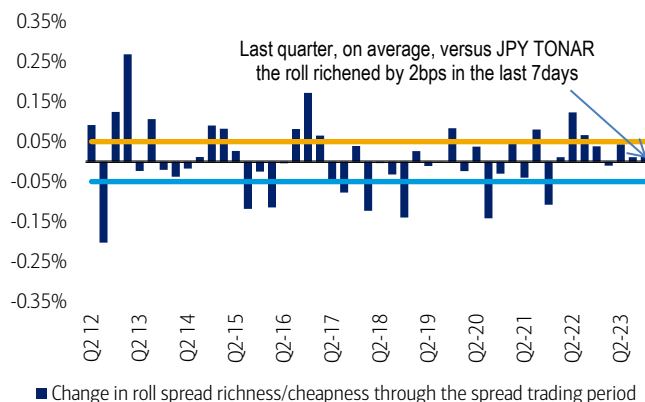


Source: BofA Global Research

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#### Exhibit 4: NKY roll spread cost measured as the difference between the average over the entire quarter and the cost with 7 trading days remaining for spread trading

The Dec-23 roll richened into expiry



Source: BofA Global Research

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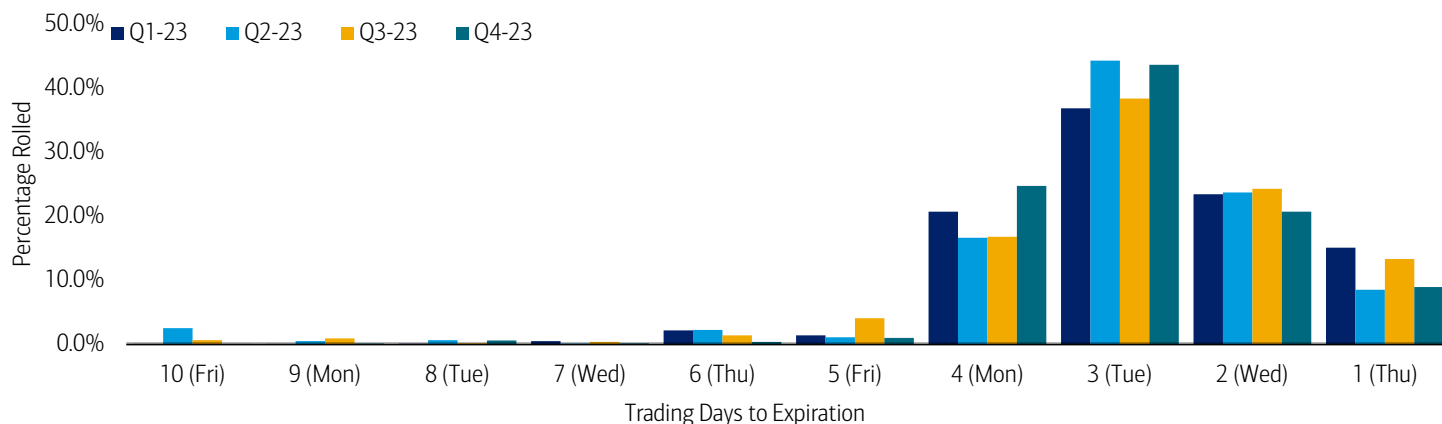
## Nikkei 225 futures roll progression

### Monday and Tuesday were the most active roll days in December

As is typical, peak roll volume through last quarter's roll came on Tuesday of expiry week (Exhibit 5), and the roll progressed largely as per normal. We note, however, that fewer investors than normal waited until the last 1-2 days to roll their positions.

#### Exhibit 5: Percentage of Nikkei (NK) futures rolls $n$ trading days to expiry over the prior four quarters

Based on the volume traded in the futures spread contract



Source: BofA Global Research

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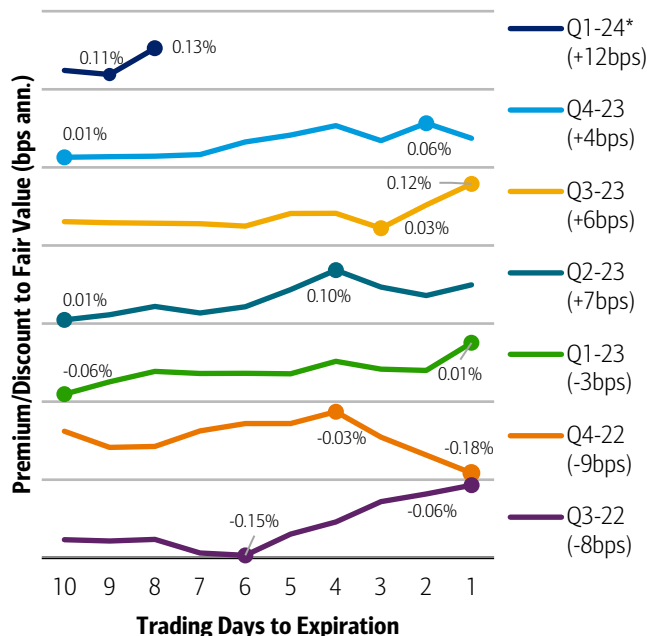
# Topix Mar-24/Jun-24 Futures Roll

## Topix futures roll snapshot

### Exhibit 6: The evolution of Topix futures quarterly roll spread richness/cheapness over the current QTD and prior six quarters

Positive number = Cost to a long futures roller

Negative number = Benefit to a long futures roller



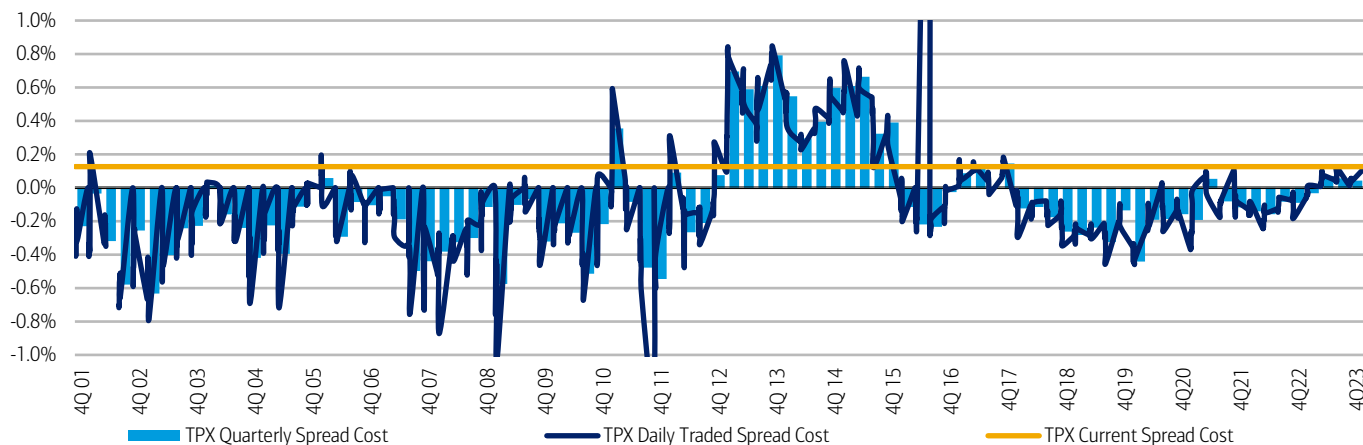
Source: BofA Global Research. Data as of 27-Feb-24. \*Data before completion of quarterly roll spread trading.

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Assuming cash collateralized at JPY TONAR\*\*, we note that the cost of holding Topix futures from Mar-24 expiry through Jun-24 expiry is currently 13bps rich annualised. Since 4Q 2001, the average quarterly cost of holding Topix futures was 9bps cheap. At current levels, the cost of rolling Topix futures ranks in the 85th percentile since the end of 2001 (Exhibit 7).

### Exhibit 7: The cost (assuming cash collateralized at JPY TONAR\*\*) of holding TPX futures over the next 3 months is in line with long-term levels

The current level of 0.13% corresponds to the 85th percentile since 2001



Source: BofA Global Research. Data as of 27-Feb-24. Quarterly spread cost measured as a volume weighted average of daily roll spread costs over the final 10 days of each quarter's roll spread trading period. Daily spread costs shown for the final 10 days of each quarter. \*\* TONAR replaces LIBOR in Japan.

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## Topix futures prior roll (Dec-23/Mar-24) review

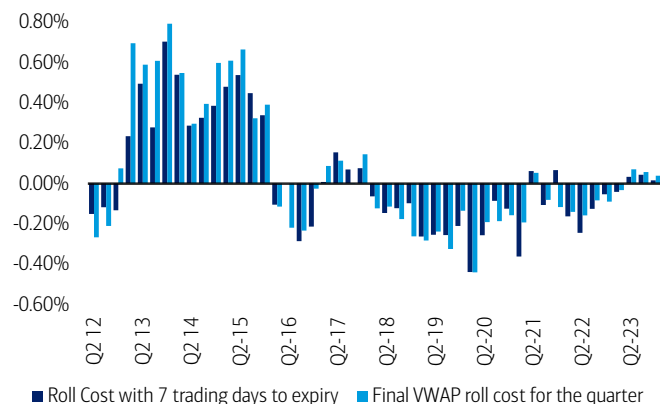
### The Dec roll richened as roll volume picked up and stocks rallied

With 7 trading days to expiry, the roll was trading 1bp rich but richened by a further 3bps into expiry, finishing at 4bps. The final volume-weighted average price (VWAP) roll cost for the quarter ended up being 4bps rich (Exhibit 8 and Exhibit 9).

Given that the roll cost richened alongside increasing roll activity and rallying markets, long rollers likely dominated, and/or investors were chasing the Japan rally using futures.

#### Exhibit 8: Topix quarterly roll spread cost measured (1) with 7 days remaining for spread trading (2) on average over the entire quarter

Roll spread cost measured on average over the entire quarter is typically not too dissimilar to the cost as measured over the final 7 days as volume peaks into expiry

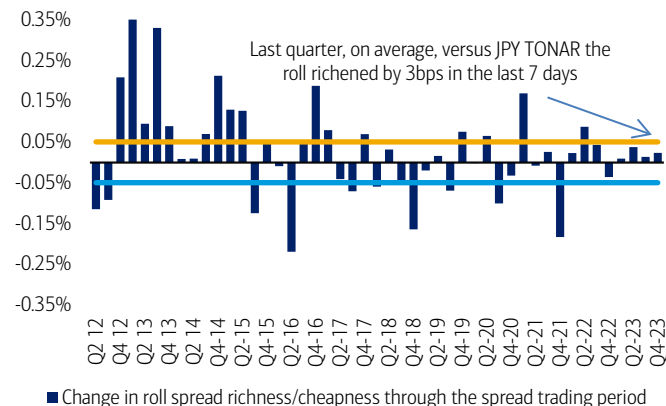


Source: BofA Global Research

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#### Exhibit 9: Change in TPX roll spread cost measured as the difference between the average over the entire quarter and the cost with 7 trading days remaining for spread trading

The Dec-23 roll cost picked up



Source: BofA Global Research

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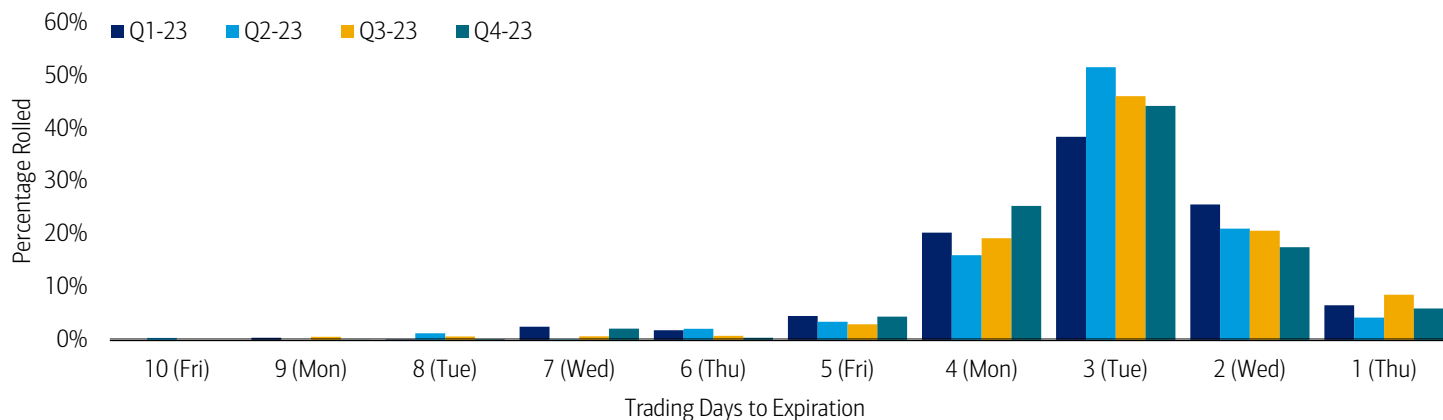
## Topix futures roll progression

### Most of last quarter's roll went through on Tuesday of expiry week

As usual, peak roll volume through last quarter's roll came on Tuesday of expiry week, when 44% of the rolls were traded (see Exhibit 10). We note, however, that roll trading started a bit earlier than normal, with more roll activity up on the last Monday before expiry.

#### Exhibit 10: Percentage of Topix (TP) futures rolls in trading days to expiry over the prior four quarters

Based on the volume traded in the futures spread contract



Source: BofA Global Research

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# Summary of Prior Roll Strategy Reports

## Exhibit 11: Summary of prior roll strategy reports

Roll timing recommendations, rationale and the subsequent outcome

Index	Futures ticker	Roll	Report date	Roll cost on report date	Final quarter average cost	Strategy & rationale
Nikkei 225	NK	2024-Q1 (Mar-24/Jun-24)	27-Feb-24	+3bps	TBD	Long rollers should consider rolling early as upside chasing could add further upside pressure to the roll cost. Risks to this view are linked to stop-loss triggers near 37k.
Topix	TP	2024-Q1 (Mar-24/Jun-24)	27-Feb-24	+13bps	TBD	Long rollers should consider rolling early as upside chasing could add further upside pressure to the roll cost. Risks to this view are linked to stop-loss triggers near 2.6k.
Nikkei 225	NK	2023-Q4 (Dec-23/Mar-24)	28-Nov-23	+1bp	+3bps	Long rollers should consider rolling early despite a statistically rich roll. With not much positioning risk chances are that long rollers dominate and drive costs higher as in Sep.
Topix	TP	2023-Q4 (Dec-23/Mar-24)	28-Nov-23	+2bps	+4bps	Long rollers should consider rolling early despite a statistically rich roll. With not much positioning risk chances are that long rollers dominate and drive costs higher as in Sep.
Nikkei 225	NK	2023-Q3 (Sep-23/Dec-23)	29-Aug-23	+3bps	+4bps	Long rollers should consider rolling early despite a statistically rich roll. With not much positioning risk chances are that long rollers dominate and drive costs higher as in June.
Topix	TP	2023-Q3 (Sep-23/Dec-23)	29-Aug-23	+4bps	+6bps	Long rollers should consider rolling early despite a statistically rich roll. With not much positioning risk chances are that long rollers dominate and drive costs higher as in June.
Nikkei 225	NK	2023-Q2 (Jun-23/Sep-23)	30-May-23	-1bp	+5bps	Long rollers should roll late since the roll is already historically rich and positioning risk seems very asymmetric with downside risks much larger than upside risks.
Topix	TP	2023-Q2 (Jun-23/Sep-23)	30-May-23	+2bps	+7bps	Long rollers should roll late since the roll is already historically rich and positioning risk seems very asymmetric with downside risks much larger than upside risks.
Nikkei 225	NK	2023-Q1 (Mar-23/Jun-23)	28-Feb-23	-5bps	-6bps	Long rollers should consider rolling late as the roll cost is statistically rich and positioning risks seem skewed to the downside in the near term.
Topix	TP	2023-Q1 (Mar-23/Jun-23)	28-Feb-23	-4bps	-3bps	Long rollers should consider rolling late as the roll cost is statistically rich and positioning risks seem skewed to the downside in the near term.
Nikkei 225	NK	2022-Q4 (Dec-22/Mar-23)	30-Nov-22	-11bps	-7bps	Long rollers want to roll early in anticipation of continued buying pressure from trend-following investors.
Topix	TP	2022-Q4 (Dec-22/Mar-23)	30-Nov-22	-8bps	-9bps	Long rollers want to roll early in anticipation of continued buying pressure from trend-following investors.

Source: BofA Global Research

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