

Master of Technology

Computational Intelligence II

Continuous Assessment: GA-Fuzzy System for Trading Crude Palm Oil Futures

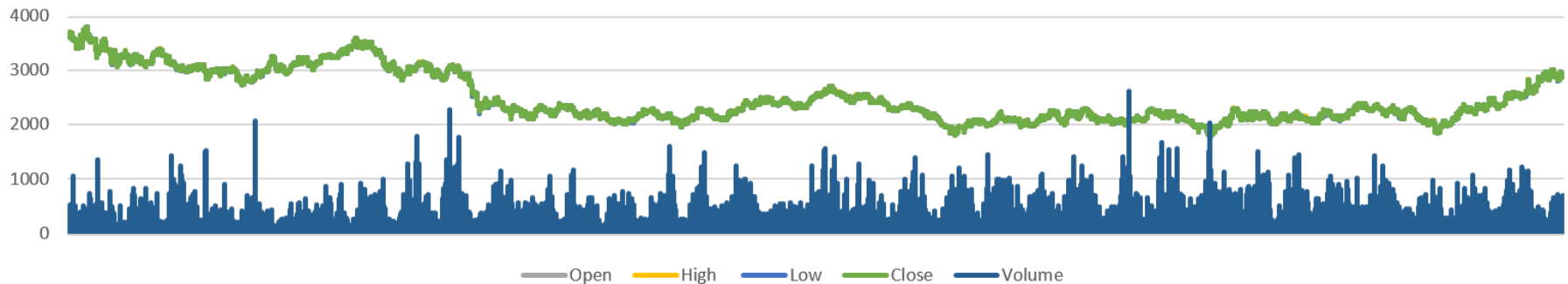
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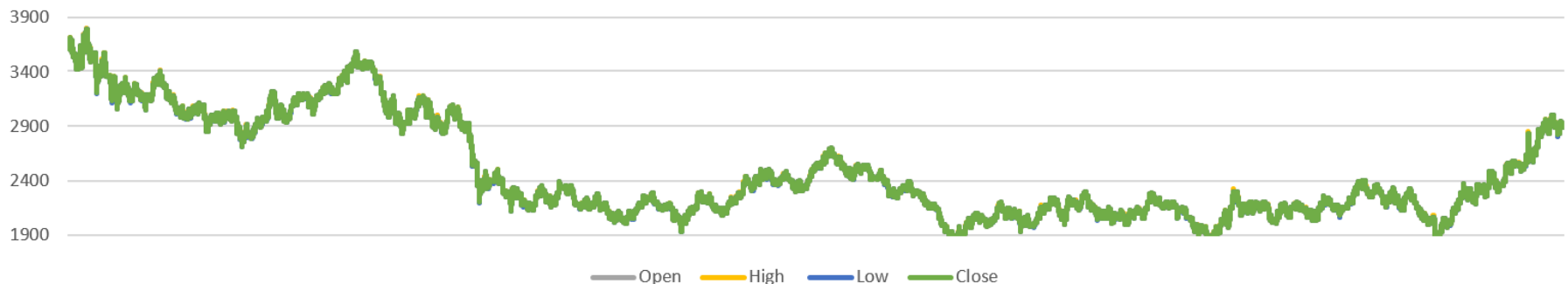
Crude Palm Oil (FCPO) Futures

Developing an Algorithmic Trading System

Crude Palm Oil (FCPO) Futures - Bursa Malaysia with Volume



Crude Palm Oil (FCPO) Futures - Bursa Malaysia



6 years per minute prices and trading volume for 37 Crude Palm Oil (FCPO) Futures

Background

Developing an Algorithmic Trading System

- Background information
 - You are requested to design and develop a real quantitative algorithmic trading system (Algorithmic Trading Strategies or rule sets) using (Genetic Algorithms **or** Evolution Computing) **and** (Fuzzy Logic/Set **or** Rough Set) to trade Crude Palm Oil (FCPO) Futures on Bursa Malaysia Derivatives Exchange.
 - With an initial investment fund allocated to you as a fund manager, you and your system want to obtain highest profit (or lowest loss, hopefully not) in a few years.
 - You test your system's trading strategy (rules) based on real historical market data, through simulation. Hence to calculate your **position** (holdings of a group of system selected FCPO) and the actual **market value (MKV)** of your position.
 - The trading strategy (rules) is modelled/optimized/learnt based on known historical market data, using computational intelligence techniques.

Data

Developing an Algorithmic Trading System

- Dataset
 - Prices and trading volume for 37 Crude Palm Oil (FCPO) Futures
 - 6 years per minute data
 - Date from 2011 JAN 03 10:30 to 2016 DEC 30 17:59
 - 355,959 valid records
 - There may be missing records at certain time of some dates. May require data pre-processing and cleaning
 - General: The **financial instrument** code for FCPO
 - Price unit: Malaysian Ringgit
 - Volume unit: thousands
 - Volume data is from one broker only, not aggregation of entire FCPO market players.

	A	B	C	D	E	F	G	H
	General	Date	Time	Open	High	Low	Close	Volume
1				3658	3658	3643	3649	305
2				3649	3649	3642	3643	64
3				3642	3644	3638	3644	57
4				3645	3650	3645	3650	36
5				3650	3650	3644	3646	44
6				3646	3646	3643	3644	32
7				3642	3642	3636	3636	106
8				3636	3637	3635	3637	40
9				3637	3637	3629	3629	75
10				3631	3633	3631	3633	68
11				3632	3633	3629	3629	63
12				3629	3630	3628	3629	26
13				3631	3634	3630	3630	55
14				3630	3632	3630	3632	30
15				3633	3634	3631	3631	35
16				3632	3634	3632	3632	43
17				3633	3637	3633	3636	44
18				3636	3639	3636	3638	55
19				3639	3643	3639	3641	52
20				3641	3642	3640	3642	54
21				3641	3641	3640	3640	6
22	FCPO0311	20110103	10:50	3639	3639	3636	3638	19
23	FCPO0311	20110103	10:51	3638	3639	3638	3638	7
24	FCPO0311	20110103	10:52	3636	3644	3636	3644	42
25	FCPO0311	20110103	10:53	3641	3643	3641	3643	13
26	FCPO0311	20110103	10:54	3644	3644	3644	3644	1
27	FCPO0311	20110103	10:55	3644	3644	3640	3640	10
28	FCPO0311	20110103	10:56	3640	3640	3640	3640	2
29	FCPO0311	20110103	10:57	3641	3642	3641	3641	4
30	FCPO0311	20110103	10:58	3642	3642	3640	3640	3
31	FCPO0311	20110103	11:00	3642	3645	3642	3645	32
32	FCPO0311	20110103	11:01	3645	3645	3641	3643	21
33	FCPO0311	20110103	11:02	3643	3645	3643	3643	16
34	FCPO0311	20110103	11:03	3643	3644	3643	3644	8
35	FCPO0311	20110103	11:04	3644	3644	3642	3642	11
36	FCPO0311	20110103	11:05	3641	3642	3641	3642	25

Trading Rules

Developing an Algorithmic Trading System

- Trading Rules

- As a fund manager, you were initially allocated **10 million** Malaysian Ringgit (3.37 million Singapore Dollar) **balance** (cash) at the beginning of **2014 JAN 02** 10:30 to start trading. (3 years later from **2011 JAN 03**)
- The ultimate purpose of trading (making buy/sell transaction) is to maximize profit at the end of **2016 DEC 30** 17:59.
- You can discretionarily select a **portfolio** (group) of different FCPOs, at different **positions** (different volumes to hold).
- Maximum trading frequency: one buy transaction **and** one sell transaction per instrument, per minute. (You can choose to trade less frequently, e.g. once per hour, per week, or other.)
- For buy transaction (buy **order**), use **High** price.
- For sell transaction (sell **order**), use **Low** price.
- Each transaction (buy or sell) cost **Maximum(30, 0.2% x volume x price)** Ringgit per future instrument, per transaction. (Always one transaction for one future only)
- You can only place buy **order** if you have sufficient **balance**. (You cannot borrow cash.)
- Any transaction is considered fulfilled immediately.
- It's not necessary to trade at fixed interval, decision should be derived from system's **modelled/learnt trading strategy (rules)**.
- The end of day total **unrealized** market value for your portfolio is calculated using **Low** price.
- Total asset value = total unrealized market value + cash balance
- [Optional]** You can borrow future instruments and **short sell**.
- [Optional]** **Short** (sell order) incurs additional borrowing cost: 0.01% daily interest accrual based on original market value of borrowed positions from the short day, to be deducted from balance, (**immediately** after short sell **on the short day**, and then at **the beginning of a next new day onwards**), until fully buying back/returning the borrowed positions.
- [Optional]** Accumulated short position's original market value is capped at **5 million** Ringgit.

System Design

Developing an Algorithmic Trading System

- System Design
 - Your **mandatory** technology to use is:
 - o Genetic Algorithms **or** other Evolutionary Computing techniques
 - o Fuzzy Logic/Set **or** Rough Set
 - o Heuristic for algorithmic trading strategy, e.g. MACD (Moving Average Convergence Divergence), RSI (Relative Strength Index), and ROC (Rate of Change), etc.
 - Your **optional** technology to use is time series forecasting or other machine learning techniques.
 - **Open** and **Close** prices are not used for calculating market value, but you can use them for modelling, rule induction or machine learning.
 - Your system can be trained / retained regularly, ad-hoc, or at any frequency. But no future information can be leaked during any training/learning/optimization.
 - For online retraining, please consider that this system is a real time trading system.
 - A simulator might need to be developed, to simulate the incoming new market information per minute/step (read in record by record from input Excel file or database)

System Simulation

Developing an Algorithmic Trading System

- System Simulation and Market Value Calculation
 - Simulate per minute feeding of market information based on provided FCPO dataset.
 - Based on modelled system output, conduct necessary trading: buy, sell or hold.
 - Calculate portfolio's unrealized market value, plus any cash balance to derive total asset value at end of each day, or potentially every minute.
 - Use window based modelling/training/testing approach:

X. Liu et al. / Physica A 482 (2017) 444–457

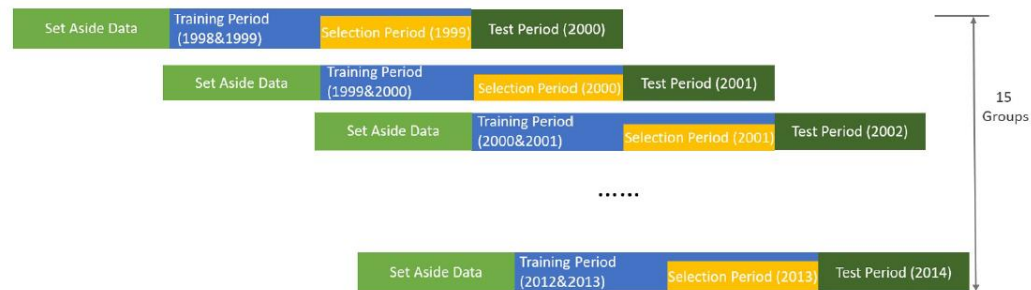


Fig. 1. Experimental groups.

No leakage of future information during simulated trading, e.g. current time is 2011 JUL 01 15:30, you and your current system/model should never have access to data from 2011 JUL 01 15:31 onwards, or have been “carelessly” trained using future data from current date time.

CA Marking

Developing an Algorithmic Trading System

- CA Evaluation Criteria (100% = 40% + 20% + 20% + 20%)
 - **40%** of CA mark: **Direct implementation** of a selected method from a relevant reference paper (clearly mention which reference paper is used in your final report), and apply to FCPO data to obtain results.
 - **20%** of CA mark:
 - **[Option 1]** Model **short sell** into algorithmic trading strategy (rules), by **adapting** and **implementing** based on the **direct implementation** above.
 - **[Option 2]** Clearly **identify** a limitation (in terms of FCPO context) of existing method from relevant paper (elaborate this your final report), then **enhance** and **implement** it, and apply to FCPO data to obtain results, e.g. other machine learning, feature engineering, extra data sources, etc.
 - **20%** of CA mark: Quality and professionalism of submitted paper report
 - **20%** of CA mark: System performance (simulated algorithmic trading profit)
 - 20%: Team with highest total asset value by end of 2016 DEC 30 17:59, **with** proof of no future information leakage shown in result, code and report.
 - 10%: Team with lowest total asset value by end of 2016 DEC 30 17:59, **with** proof of no future information leakage shown in result, code and report.
 - 6%: Team with highest total asset value by end of 2016 DEC 30 17:59, **without** proof of no future information leakage shown in result, code and report.
 - 2%: Team with lowest total asset value by end of 2016 DEC 30 17:59, **without** proof of no future information leakage shown in result, code and report.
 - 0%: Submission without total asset value calculation.

What to submit?

Developing an Algorithmic Trading System

- 3 to 5 students per team
- Paper / Report (Refer to “Elements for Paper”)
- Software deliverables (Make sure lecturers can re-run.)
- **[Optional]** A 5 minutes video briefing of your system (10% bonus CA marks, but total CA capped at 100%)
- Submission deadline: **21 Oct 2018 (Sunday)**.
- **Submit your deliverables to IVLE KE5207**
Files/Student Submission/GA-Fuzzy CA (Sam GU Zhan)/ATS-team-name.zip

Elements for Paper

Developing an Algorithmic Trading System

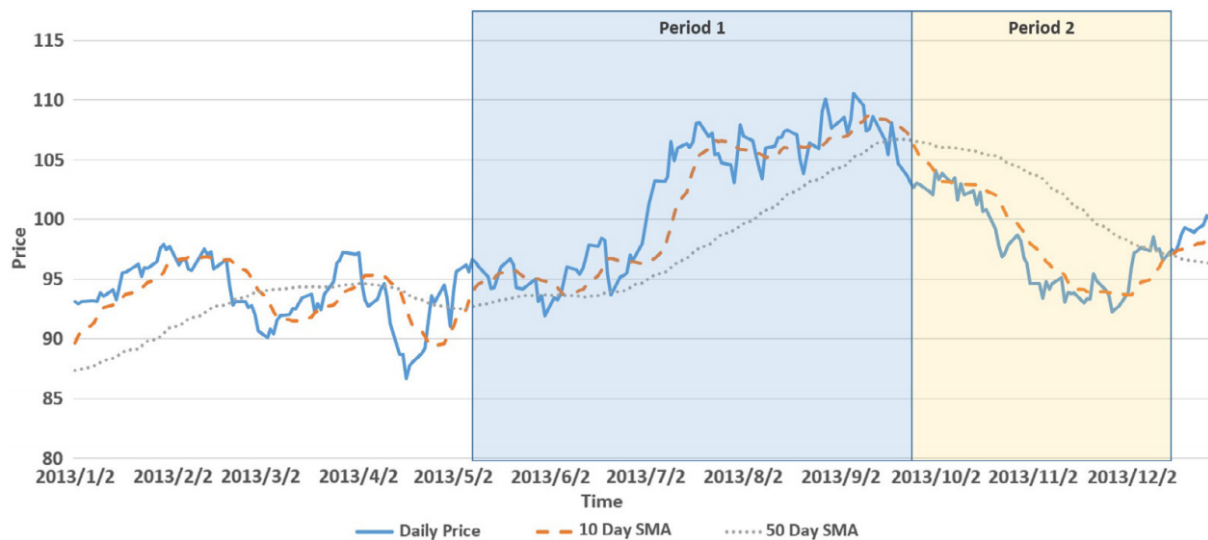
- Abstract
 - Summary of system design & modelling
 - Results from simulation (e.g. simulated total asset value)
- Introduction
 - Reference paper used/adapted for implementation
- Materials & Methods (System Design, Modelling & Simulation)
- Results & Discussion
 - One mandatory element: Detailed calculation/simulation to derive final total asset value (total unrealized market value + cash balance) at end of 2016 DEC 30 17:59.
- Conclusions
- List of abbreviations
- Acknowledgments
- References

Template: <https://typeset.io/formats/elsevier/applied-soft-computing/92eddc3ee4c2f14d02a55d60675bda2d/applied%20soft%20computing-sample.pdf>

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Schematic diagram of moving average strategy.

Quantified moving
average strategy of
crude oil futures
market based on
fuzzy logic rules and
genetic algorithms

Author(s):

Xiaojia Liua

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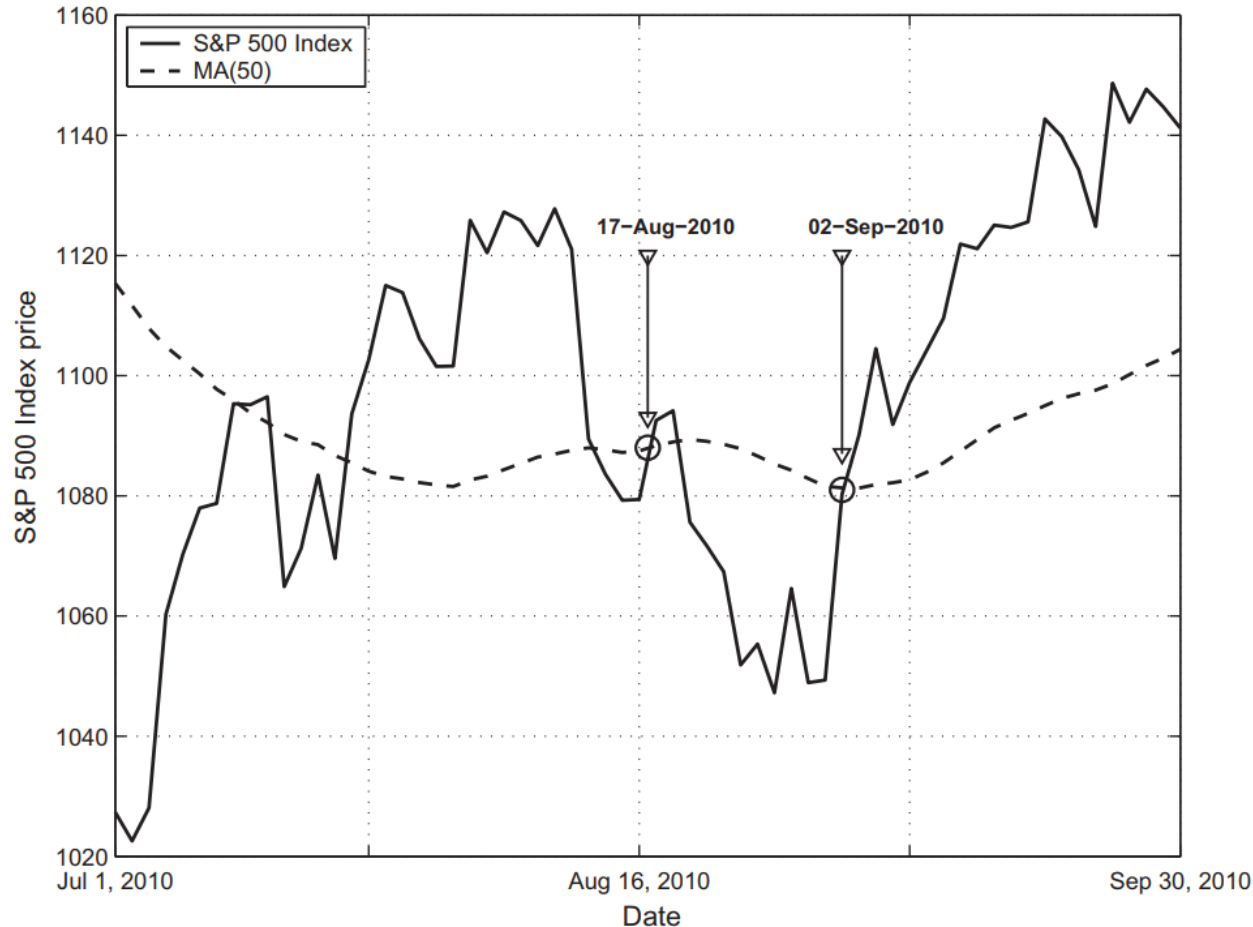
Lijun Wang

Qing Guan

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Developing an Algorithmic Trading System

N. Gradojevic, R. Gençay / *Journal of Banking & Finance* 37 (2013) 578–586



Fuzzy logic, trading
uncertainty and
technical trading

Author(s):

Nikola Gradojevic

Ramazan Gençay

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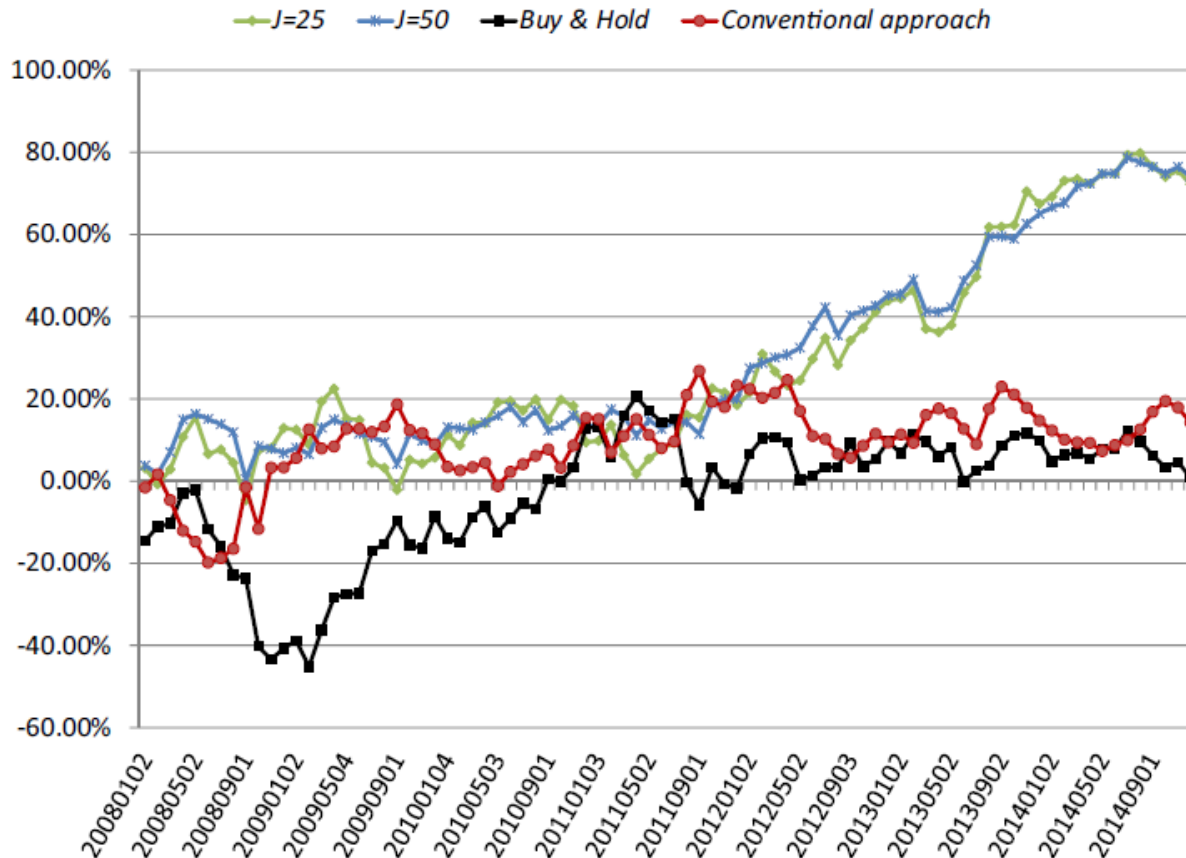


Fig. 6. Cumulative return for the rule discovery mechanism using a 6 month training period.

An intelligent hybrid trading system for discovering trading rules for the futures market using rough sets and genetic algorithms

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[Kyong JooOh^b](#)

[DavidEnke^c](#)

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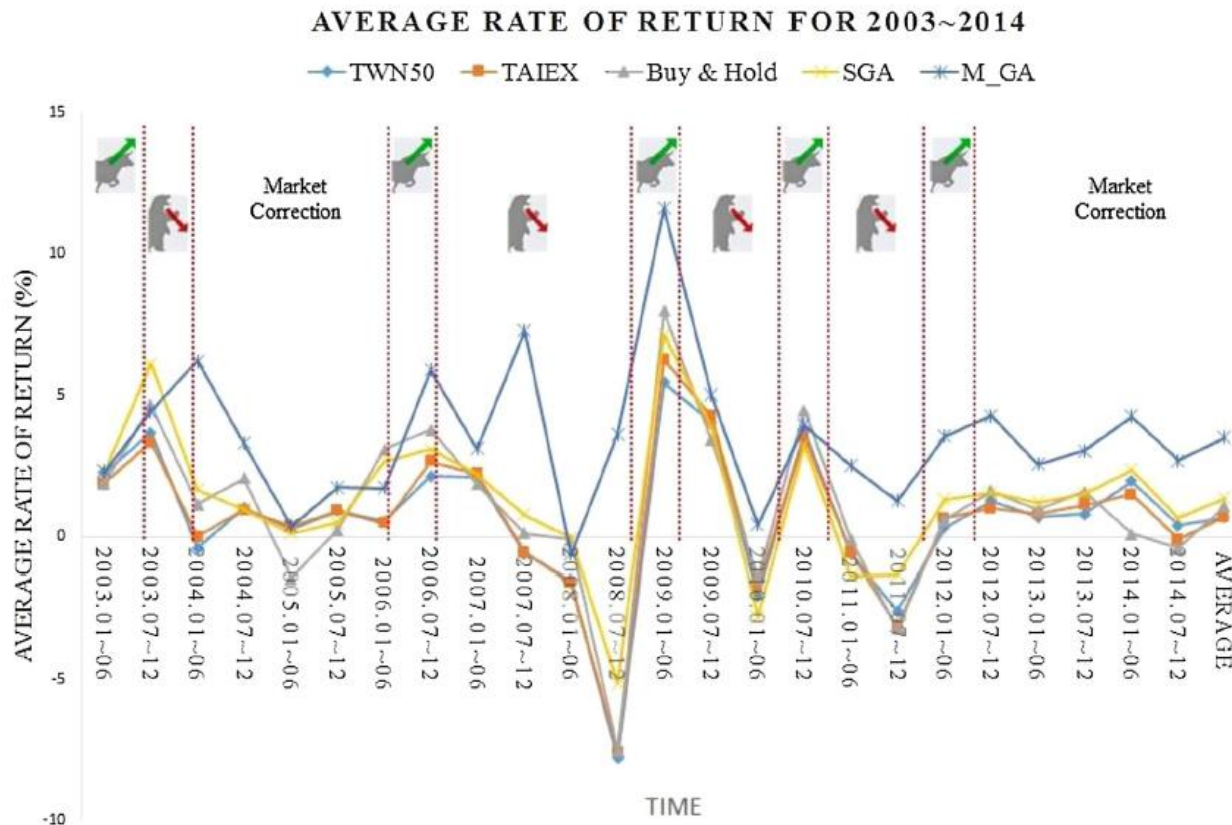


Fig. 15. Average rate of return diagram for 2003–2014.

Incorporating
Markov decision
process on genetic
algorithms to
formulate trading
strategies for stock
markets

Author(s):

[Ying-HuaChang](#)

[Ming-ShengLee](#)

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Y. Hu et al. / *Applied Soft Computing* 36 (2015) 534–551

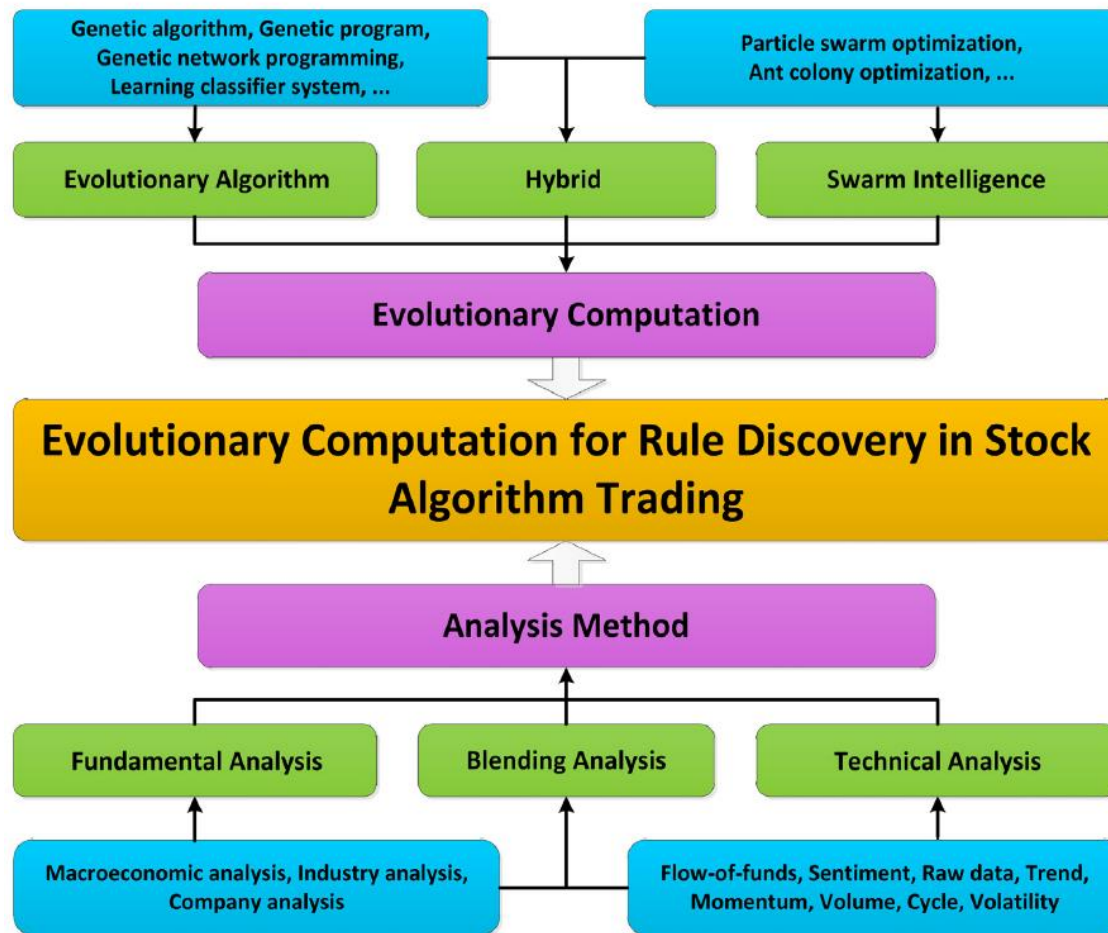


Fig. 3. Classification framework for EC techniques for rule discovery in stock algorithmic trading.

Application of evolutionary computation for rule discovery in stock algorithmic trading: A literature review

Author(s):

Yong Hua

Kang Liu

Xiangzhou Zhang

Lijun Su

E.W.T. Ngai

Mei Liu

A photograph of a large, ornate safe filled with gold coins. A person in a blue suit is digging with a shovel, and another person, whose face is obscured by a yellow circle with the word "YOU" in black, is sitting in the pile of coins. The safe has many small drawers, each with a gold handle.

Be next billionaire! Start now!

<http://static.dudeiwanthat.com//img/gear/novelty/fully-stocked-swiss-bank-safe-10777.jpg>

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