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MARMORE FIRST TAKE

Saudi Stock Exchange to introduce derivatives trading

First derivatives product to
be an index futures contract
based on MSCI Tadawul
30 Index

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HIGHLIGHTS

- Saudi Stock Exchange is set to launch derivatives trading from 30th August, 2020. The first exchange-traded derivatives product is an index futures contract, the Saudi Futures 30 (SF30). This contract is based on the MSCI Tadawul 30 Index (MT30).
- The exchange would also be launching an independent clearing house, known as Muqassa on 30th August. The clearing service would initially cater to the Exchange Traded Derivatives and would expand to other products at a later stage.
- The move is the latest addition to the reforms implemented by the exchange as part of Vision 2030 Financial Sector Development Program. Saudi Tadawul is the second market in the region to launch derivatives trading after Nasdaq Dubai.
- Liquidity in terms of value traded in futures market in NASDAQ Dubai in May 2020 was at approximately USD 422,000 whereas the value of equities traded was at about USD 102 million. But derivatives market in Tadawul might see better activity levels, given its higher market capitalization and currently increasing liquidity levels of Saudi Market. (Read more on our blog, [How liquidity in Saudi Tadawul has fared during COVID-19?](#))
- As an additional sophisticated product offering, derivatives provide investors a means to hedge their risk, improve price discovery and serve as an indicator of price expectations, in turn boosting liquidity in the stock market.
- Derivatives market could aid in attracting domestic and foreign institutional investors to Saudi stock market, which is presently more tilted towards retail participation. With the independent clearing house addressing counterparty risk, investor education could encourage retail participation in derivatives.
- Given the uncertainty and volatility of current COVID-19 times, the introduction of the derivatives, a means of risk hedging, has been timely. The exchange has also announced plans to launch futures on single stocks and commodities, options on stocks and indices in the future.

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