

3.11 DOES THE MARKET CONVERGE TO SPOT PRICE = FUTURES PRICE ?

Yes, indeed it does. As we come close to the expiry date of the futures contract, the difference between the spot price and futures prices starts to decrease and they converge at maturity. i.e., on expiry, Spot Price – Futures Price = 0.

The two converge towards the same point as shown in the following graph.



Hence, the closer the maturity/expiry date of the contract, the lesser will be the difference between the Spot and Futures Price. For instance, there is a contract that is 5-days away from its expiry date and another such contract that is 30-days away from its expiry date. The one closer to expiry will have less difference between its Spot price and Futures price in comparison to the one that expires later. So, the closer the expiry lesser the difference and vice versa.