

# Arbitrage Expiry Analysis

October, 2023

## Key Highlights



- Total number of stocks available in Futures and Options (“F&O”) segment in October series were 184 (Large cap – 85, Midcap – 75, Small cap – 24) as compared to 184 in September series (Large cap – 85, Midcap – 75, Small cap –24).
- Rising US bond yields, volatile commodity prices and fresh round of geopolitical tensions in the middle - east have led to a sharp bout of risk-off across the globe. For October series, Nifty Index declined by 3.4% while the Midcap Index and Small-cap Index also declined by 4.5% and 2.9%, respectively. Market-wide rollovers at ~91% were in-line with its 3 months average rollovers of ~91%.
- Market-wide rollovers at ~92% were above its 3 months average rollovers of ~91%.
- Average roll levels across stock futures during the expiry week were ~65-67bps (cost to long rollers).
- We feel that the markets in CY’23 could be volatile due to new flows related to geopolitical tensions, US Fed rates and inflationary pressures globally.

## Index Performance



- Rising US bond yields, volatile commodity prices and fresh round of geopolitical tensions in the middle-east have led to a sharp bout of risk-off across the globe. For October series, Nifty Index declined by 3.4% while the Midcap Index and Small-cap Index also declined by 4.5% and 2.9%, respectively. In terms of flows, FIIs were sellers while DIIs continue to remain buyers. While the participation of HNIs and Retail investors is not officially reported, their influence on the market must have undoubtedly been significant

## Rollover Analysis



- Market-wide futures open interest at the start of November series is at ~INR 2.71tn as compared to ~INR 2.86tn at the start of October series. Nifty futures will start the November series with an Open Interest of INR 219bn as compared to INR 204bn at the start of September series. Single Stock futures Open Interest stood at INR 2.40tn as compared to INR 2.56tn at the start of October series.
- Average roll levels across stock futures during the expiry week were ~65-67bps (cost to long rollers). In terms of open interest positioning, FIIs have increased their short position in both Index and stock futures.
- In October series, on sectoral front Auto, FMCG and Realty were major outperformers while PSU Bank, IT and Metals were major underperformers. Market-wide rollovers were at ~92% which is above its 3 months average of ~91%. Stock futures rollovers stood at 94%, which is above its 3 months average of 93% .

## Flow Analysis: Institutional Flows



- The FIIs pulled out USD 2bn in October while DIIs pumped in USD 3.1bn.

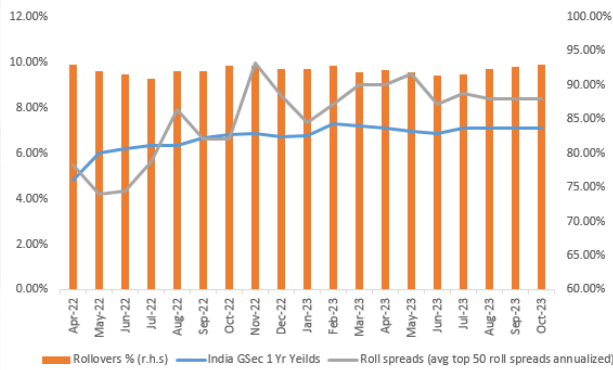
## Outlook



- In terms of key events from where markets will look for cues in November are geopolitical events, rising US bond yields and Q2FY’24 earnings season.
- We feel that the markets in CY’23 would be volatile due to global macro uncertainty. Volatility in the markets could help to churn the arbitrage portfolio and generate good returns.

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- Annualised Roll spreads of Top 50 stocks in October'23 were in-line with the spreads in September'23. India Government Security 1 year Yield remained flat in October'23 as compared to September'23.
- Market wide Rollovers were above in October'23 as compared to September' 23.

Source: Axis Capital

Return Analysis	Trends		
JM Arbitrage Fund	MOM change	QOQ change	YOY change
Equity portion Returns	↓	↓	↑
Debt portion Returns	↔	↔	↑
Total Returns	↓	↓	↑

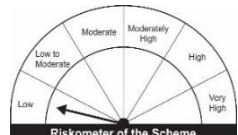
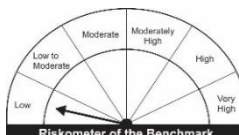
## Tax Comparison

Source – JMF MF Research

Post Tax Returns	Arbitrage funds	Liquid funds
Invested amount	Rs. 100000	Rs. 100000
Assumed returns	4%	4%
Investment period	6 months	6 months
Investment gross value	Rs. 102000	Rs. 102000
Tax applicable - HNI/Individual % ^	STCG 15% + 15% surcharge + 4% cess = 17.94%	30% + 37% surcharge + 4% cess = 42.74%
Total tax – HNI/Individual (Rs)	359	855
Post tax value - Individual	1,641	1,145
HNI/Individual Post tax returns %	3.28	2.29
Tax applicable - Corporate % ^	STCG 15% + 12% surcharge * + 4% cess = 17.47%	30% + 12% surcharge * + 4% cess = 34.94%
Total tax - Corporate (Rs)	349	699
Post tax value - Corporate	1,650	1,301
Corporate Post tax returns %	3.30	2.60

^ Highest Tax bracket considered for calculations. In case of companies if income exceeds Rs. 1 crore but does not exceed Rs 10 crores, then the tax payable would be increased by a surcharge 2% in case of foreign companies and if income exceeds Rs 10 crore then surcharge @ 5% in case of foreign companies would be applicable. In the case of Individuals, as per Finance Act, 2019, where taxable income of the individual exceeds Rs 50 lakhs but does not exceed Rs 1 crore, surcharge @ 10% would be applicable, where the taxable income of the individual exceeds Rs 1 crore, but does not exceed Rs 2 crore, surcharge @ 15% would be applicable, where the taxable income exceeds Rs 2 crore but does not exceed Rs 5 crore, surcharge @ 25% shall be applicable and where the taxable income exceeds Rs 5 crore, surcharge @ 37% shall be applicable. In all cases, the tax payable (as increased by surcharge would be further increased by Health & Education Cess (4%). Further Finance Act 2022 has capped the rate of surcharge on long term capital gains referred to in section 112 at the rate of 15% if the income exceeds INR 1 crore. If the income is between INR 50 lacs to INR 1 crore, the surcharge of 10% continues to apply. \*Surcharge at the rate of 7% is levied for domestic corporate unit holders where the income exceeds Rs.1 Crore but is less than Rs. 10 Crore and at the rate of 12%, where income exceeds Rs.10 Crore) (except such domestic company whose income is chargeable to tax under section 115BAA or 115BAB of the Income- Tax Act, 1961). In view of the individual nature of tax implications, investors are advised to consult their professional tax advisor. The calculation is based on old regime. Source – IIFL Research, JMF MF Research

**JM Arbitrage Fund** (An open ended scheme investing in arbitrage opportunities)

This Product is suitable for investors who are seeking*	Scheme Risk-o-meter#	Benchmark Risk-o-meter# Nifty 50 Arbitrage Index
<ul style="list-style-type: none"> <li>• Regular Income over Medium Term</li> <li>• Income through arbitrage by investment predominantly in Equity Stocks and taking offsetting positions in Equity Futures and Options.</li> </ul> <p>*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.</p>	 <p>Riskometer of the Scheme</p> <p>Investors understand that their principal will be at low risk</p>	 <p>Riskometer of the Benchmark</p> <p>Investors understand that their principal will be at low risk</p>

# The risk-o-meter of the Scheme and Benchmark is as on August 31, 2023

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**Mutual Fund investments are subject to market risks, read all scheme related documents carefully.**