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**Index Arbitrage Profitability of MICEX Index Futures**

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**Abstract**

The research centers on studying the degree of consistency between theoretical underpinnings and actual price setting in the MICEX Stock Exchange. Arbitrage-free approach towards asset pricing implies that arbitrage techniques engaged in price setting eventually lead prices to the equilibrium level. That is, markets in the arbitrage equilibrium state do not provide opportunities for receiving abnormal (above guaranteed) instantaneous return. Empirical testing involves studying two MICEX sectors, the Equities & Bonds Market and the Derivatives Market, thus following a quite conventional for such studies scheme: spot price versus futures price with the former being represented by capitalization-weighted free-float adjusted broad MICEX Index and the latter by non-delivery futures contract on this index. The index future price is calculated as the expected value of future pay-offs discounted continuously in time under risk-neutral price dynamics. Since the MICEX Index is not a tradable asset (there is no exchange-traded fund to reflect the composition of the index) the calculation of the expected value requires an initial construction of a portfolio of stocks replicating the index with regard to future pay-offs. Assumptions are made on the following: 1) transaction-related costs, 2) margin-related withdrawals, 3) tracking error. The research reveals that the futures contract is rather underpriced for the period considered. Mispricing exhibits an upward trend towards the maturity of the futures contract, that is, the futures contract appears to comply with the convergence rule.

**Key Words:** arbitrage, mispricing, MICEX.