



Recently, there have been several posts on one of the internet forums, discussing a way to gain a small advantage during the pre-open and pre-close of the daily stock market on SGX. Is there really such a wonderful trick?

### Pre-Open and Pre-Close

Although the Singapore Exchange (SGX) officially opens from 9am to 12:30pm and 2pm to 5pm every day, there are actually several additional periods.

- 08:30am to 08:59am: Pre-open. Orders may be placed or amended
- 08:59am to 09:00am: Matching. Orders may **not** be placed or amended
- 05:00pm to 05:05pm: Pre-close. Orders may be placed or amended
- 05:05pm to 05:06pm: Matching. Orders may **not** be placed or amended

These periods are necessary to match and close any pending trades from the regular trading window.

We look at the pre-close example of CapitalMalls Asia (CMA), near the close of trading on 14 Dec 2009 (Monday).

## Price Matching and Queue Jumping

Tuesday, 15 December 2009 14:48 - Last Updated Wednesday, 11 December 2013 02:06

---

Time	Price	Trade Size	Bid-Ask
17:05:00	2.700	2,162,000	Bought From Seller
16:59:00	2.670	40,000	Sold To Buyer
16:59:00	2.670	2,000	Sold To Buyer
16:59:00	2.670	4,000	Sold To Buyer
16:59:00	2.670	2,000	Sold To Buyer
16:59:00	2.670	5,000	Sold To Buyer
16:57:00	2.680	3,000	Bought From Seller
16:57:00	2.680	1,000	Bought From Seller
16:56:00	2.670	5,000	Sold To Buyer
16:56:00	2.680	1,000	Bought From Seller
16:55:00	2.670	10,000	Sold To Buyer
16:54:00	2.670	2,000	Bought From Seller
16:54:00	2.670	46,000	Bought From Seller
16:54:00	2.670	3,000	Bought From Seller
16:54:00	2.670	3,000	Bought From Seller
16:54:00	2.670	3,000	Bought From Seller
16:54:00	2.670	100,000	Bought From Seller
16:54:00	2.670	5,000	Bought From Seller
16:54:00	2.670	15,000	Bought From Seller
16:54:00	2.670	15,000	Bought From Seller

Up until a minute before 5pm, shares were still being sold down to buyers at a price of \$2.67. On the face of it, after the pre-close, a large block of more than 2 million shares were bought up. The truth is slightly more complicated.

### How Matching Works

Most the sellers of the 2.162 million shares probably did not place their sell price at \$2.70. Even though there were willing buyers at **up to** \$2.70 during the pre-close, there were also willing sellers at \$2.68 and \$2.69.

What probably happened was that the 2,162 lot buy orders at \$2.70 were placed just after 5pm.

However, at 5:05pm, there were altogether only (say) 2,000 lots available for sale at \$2.68 and \$2.69. Therefore, to match the final 162 lots, the purchase price would have to be \$2.70.

Due to the marginal pricing rule of the matching process, not unlike in an auction, all 2,163 lots of shares would be matched at \$2.70 (the marginal price), which would be the final closing price. A “gap-up” from \$2.67 to \$2.70 is thus said to have occurred. {loadposition advert1}

Of course, this begs the question of why anyone would place a large buy order during pre-close at a price 3 bids higher than the last-done price at 4:59pm. One scenario would be “short-covering”, when traders who had earlier performed a short-sell transaction now have to cover their “shorts” at the last minute. If the bid buy price is not high enough to procure the required number of shares, these naked short-sellers risk incurring a penalty. Another type of buyer could be funds which view the day-end matching window as the best time to acquire large blocks of shares without attracting too much attention to themselves.

### Queue Jumping

The artefact of the matching process means that it is possible to “cut a queue” if you notice the large buy order placed during the pre-close and want to get ahead of other traders who had queued to sell at say \$2.70. You just have to enter a sell-bid of \$2.69 or lower and hopefully the marginal price to fill the 2,162,000 million shares would still turn out to be \$2.70.

This of course still does not guarantee that your bid would be successful at \$2.70 or even \$2.69, because other sellers may be thinking the same and try to undercut your pre-close bid by bidding to sell at \$2.68 or lower. If there are sufficient “queue jumpers” to sell at \$2.69 or lower, the final transacted price might well have been \$2.69, even though the buyer was willing to pay up to \$2.70.

### Not a Sure Bet

Of course, sophisticated speculators do know about the rules behind the matching system. They would have access to market depth information, which allows them to judge what is the

best price to perform the “queue-cutting” trick.

With so many pairs of eyes looking for such opportunities, it is rare for a stock to have a closing price that is far away from the last done price just before the official close, like in the CMA example.

Furthermore, the buyers in the above example for CMA may still withdraw their \$2.70 buy orders during the pre-close, before matching starts. In the worst case, a “queue jumper” who bids to sell at \$2.66 may actually succeed at selling at \$2.66 instead of the \$2.70 he was hoping for.

“Queue-jumping” is occasionally fruitful and worth a try if you do notice a potential to trade at a more favourable price than during the regular market windows. However, other market players are also usually thinking the same thing and the window of opportunity exists for only 5 minutes. Therefore, the opportunity for large profits is rare.