ABSTRACT

Persistent arbitrage opportunities are indicative of inefficiencies within a market. While South Africa's financial markets are generally considered advanced in relation to the country's emerging market status, the degree of arbitrage opportunities and efficiency among its Top 40 index futures and Satrix exchange-traded funds has yet to be tested.

Using high-frequency intraday data over the first quarter of 2006, and factoring in various costs and constraints in executing arbitrage opportunities, this study revealed that South Africa's markets do indeed live up to their claim. However, the Satrix Top 40 exchange-traded fund was priced at an intraday premium relative to the index, but generally had insufficient liquidity to yield any economically significant arbitrage opportunities, except between 14:00 and 14:30, where an additional, almost risk-free profit of 0.1485% was found. The lack of pervasive arbitrage opportunities and low levels of friction are indicative of market efficiency and have important implications for those seeking foreign investment into South Africa's financial markets.