Reading the future against its underlying

> **THE LEAD-LAG READ**
>
> The future and its underlying as two views of one market, tethered by carry: during cash hours they move as one via arbitrage; outside them the future trades on while the cash sleeps - which makes the future the messenger for overnight news, and the basis's stability the health check on every cross-reading.

Module 1 tethered the future to its underlying with carry. This lesson reads along the tether - because half of futures reading is really reading the underlying through the future, and knowing when the reading is trustworthy.

The two regimes of the tether

Cash hours: arbitrage welds the pair - gaps beyond carry are closed for profit in seconds, and the two charts are one chart. Reading either is reading both.Cash closed: the future trades on - the overnight session pricing news the cash market cannot. Index futures at 3am are the world's opinion of tomorrow's open: real, deep enough to matter, and the honest preview the equity track's thin out-of-hours prints never were.

The futures-first readings

Where the future leads by construction: overnight reaction to news - the equity trader's pre-market read is mostly a futures read one step removed; the cash open's likely gap - measured as the future's distance from fair value against the prior close, which platforms quote as the implied open; and stress hours - when cash markets halt or auction, the future often remains the live price, which is why every desk watches it during the moments cash cannot speak.

The health check

Every cross-reading assumes the tether holds, so the basis is the instrument panel: stable at carry means the readings are clean; widening beyond carry means arbitrage is impaired - stress, limits, or a dislocating market - and the future's message about the underlying becomes noisier exactly when it is most watched. The habit: read the pair, not either alone, and read the gap between them as its own signal - which is module 8's basis lesson in embryo, and this module's last new tool.

Check your understanding

1. Why is the index future at 3am a better preview than equity out-of-hours prints?

a. It updates faster

b. It is a deep, central-book market pricing world news continuously - real participation, where the equity prints were thin-book opinions

c. It cannot gap

Answer: b. The future trades on while cash sleeps, at institutional depth. The equity track's thinness caution inverts: here the overnight messenger is the crowded one.

2. What does a basis widening beyond carry indicate for cross-readings?

a. The underlying is mispriced

b. The tether is impaired - stress or limits are blocking arbitrage - so the future's message about the underlying is noisiest exactly when most watched

c. A dividend was announced

Answer: b. Cross-reading assumes the weld. The basis is the health gauge: at carry, clean; beyond it, the pair is telling you about market function, not just price.