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FUTURES AND OPTIONS AS INSTRUMENTS OF HEDGING RISKS

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Summary - In the modern world, for the effective functioning of any company in markets of currencies, equities, bonds and commodities, a comprehensive business analysis is necessary. One of the stages of this analysis is the prediction of risks and potential ways to overcome them through hedging tools - futures and options.

Резюме – В современном мире для эффективного функционирования любой компании на рынках валют, акций, облигаций и товаров необходим комплексный бизнес-анализ. Один из этапов этого анализа - прогнозирование рисков и потенциальных способов их преодоления применяя инструменты хеджирования - фьючерсы и опционы.

Intoduction. Many investors, buying stocks and other financial assets, worry about their future value and fear the adverse movement of the exchange rate. Companies are also afraid of facing unfavorable changes when buying raw materials, selling goods or conducting export-import operations. In today’s modern markets of currencies, equities, bonds and commodities there are many competitors and unpredictable alterations, therefore forecasting mission is not so easy to complete. During the periods of instability and impossibility of predicting the future behavior of market indicators, hedging is almost the only tool for managing market risks. Therefore, in world practice, the use of various hedging instruments has long become an integral part of the majority of economic activity companies.

Main part. The most common risk hedging instruments are derivatives market assets - futures and options, which are agreements for future transactions at predetermined prices. The risk of the buyers is the unknown sale price, while seller risk is the unknown price of the following purchase. Derivatives market instruments just allow you to predetermine this price, making it possible to hedge both long and short investor positions.

For example, hedging the risk of rising prices for raw materials by purchasing futures contracts is a common practice. The company - the manufacturer - sells the goods now with delivery in the future. It’s planned, that raw materials for the production of this product will be purchased later. The enterprise is satisfied with the current price of raw materials, but there are concerns that by the time the goods are delivered, the prices of raw materials will increase, resulting in losses. That is why the company buys a contract for future deliveries. Suppose that the fears of the enterprise were justified and the price of raw materials, and, accordingly, of goods, increased in the future. Despite the current situation, the company continues to make a profit, as it has an airbag in the form of a futures contract concluded in advance.

Compared to futures, options are less costly and risky. It is advisable to use futures when there is a confidence in the forecasts of future development of market events. However, the terms of such a contract require compulsory execution of the transaction and mistakes in forecasts may lead to losses. Therefore, in order to limit the risk of hedging to a certain amount, it is more advisable to use options. In the case of options, the hedger cannot get the result worse than expected, because he has the right to refuse to perform it in case of disadvantage. At the same time the maximum negative risk is the value paid for the premium option. So, the probability of receiving a negative risk in transactions with the option is negligible, and the positive risk can be arbitrarily large depending on the favorable market situation.

Conclusion. Hedging costs are relatively small compared to the losses that may arise when a hedge is refused. For example, to cover the risk of the company, it was necessary to withdraw from the business operations $ 4-6 million. The managers of the company believe that this sum is too large. As a result, losses amounted to $ 250-300 million. In world practice, the use of mentioned financial hedging instruments has long become an integral part of the economic activities of major companies, because it provides sustainable business development and leads to strengthening the company's market position.

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