A STUDY ON FUTURES IN DERIVATIVES MARKET

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ABSTRACT

A Study on **FUTURES IN DERIVATIVES MARKET at B.N.RATHI SECURITIES LIMITED at PRODDTUR** .FUTURES IN DERIVATIVES MARKET Explains about The emergence of the market for derivative products, most notably forwards,futures and options ,can be traced back to the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices.By their very nature,the financial markets are marked by a very high degree of volatility. Through the use of derivative products, it is risk management, these generally do not influence the fluctuations in the underlying asset prices.However,by locking-in asset prices.derivative products minimize the impact of fluctuations in asset prices on the profitability and cash flow situation of risk-averse investors.Derivative products initially emerged as hedging devices against fluctuations in commodity prices,and commodity-linked derivatives remained the sole form of such products for almost three hundred years.Financial derivatives came into spotlight in the post-1970 period due to growing instability in the financial markets.However,since their emergence,these products have become very popularand by 1990s,they accounted for about two-thirds of total transactions in derivative products.

KEY WORDS: Risk management, Risk-averse, High degree volatility, Fluctuations in commodity etc,

INTRODUCTION OF DERIVATIVES

Derivatives are a wide group of financial securities defined on the basis of other financial securities, i.e., the price of a derivative is dependent on the price of another security, called the underlying. These underlying securities are usually shares or bonds, although they can be various other financial products, even other derivatives. As a quick example, let's consider the derivative called a 'call option', defined on a common share. The buyer of such a product gets the right to buy the common share by a future date. But she might not want to do so—there's no obligation to buy it, just the choice, the option. Let's now flesh out some of the details. The price at which she can buy the underlying is called the strike price, and the date after which this option expires is called the strike date. In other words, the buyer of a call option has the right, but not the obligation to take a long position in the underlying at the strike price on or before the strike date. Call options are further

classified as being European, if this right can only be exercised on the strike date and American, if it can be exercised any time up and until the strike date.

Derivatives are amongst the widely traded financial securities in the world. Turnover in the futures and options markets are usually many times the cash (underlying) markets. Our treatment of derivatives in this module is somewhat limited: we provide a short introduction about of the major types of derivatives traded in the markets and their pricing.

REVIEW OF LITERATURE

The emergence and growth of the market for derivative instruments is because of the willingness of risk-averse economic agents to guard themselves against uncertainties arising out of fluctuations in asset prices. By providing investors and issuers with a wider array of tools for managing risks and raising capital, derivatives improve the allocation of credit and the sharing of risk in the global economy, lowering the cost of capital formation and stimulating economic growth. Now that world markets for trade and finance have become more integrated, derivatives have strengthened these important linkages between global markets, increasing market liquidity and efficiency, and have facilitated the flow of trade and finance.

Anand (2018)

opines derivatives as "a derivative is a synthetic construction designed to give the same profile of returns as some underlying investment or transaction.without requiring the principal cash outlay.they are called derivatives because they derive their value from the performance of the underlying instruments."

Dr T.V..S.S.Swathi and M.V.Sai Priya(2021)

it defines to study futures and options by considering a company derivative from Indian stock market and suggesting the best possible ways to investors to gain more profits in derivative markets from the study it is found that derivatives will mitigate the risk arises in stock market in futures investor cover the loss occurred in near month contract by using mid-month contract.

Naresh .G(2019)

studied the dynamic growth of the Derivatives market.particularly futures & options and the perceived risks to the financial sector continue to stimulate debate on the proper regulation of these instruments Even though this market was initially fueled by various expert teams survey, regulatory framework,recommendations by laws and rules there is still debate on the existing regulations such as why is regulation needed.

Sirisha (2017)

opines derivatives allow financial institutions and other participants to identify, isolate and manage separately the market risks in financial instruments and commodities for the purpose of hedging, speculating, arbitraging price differences and adjusting portfolios risks.

Jiwa ajika (2016), "Derivatives are used as a tool of risk management; the risks are associated with derivatives including market risk, credit risk and liquidity risks. The risks are directly related to size and price volatility of the cash flows they represent they are to the size of the notional amounts on which the cash flows are based."

NEED FOR STUDY

- In recent times the derivatives markets have gained importance in terms of their vital role in the economy.
- The increasing investments in derivatives (Domestic as well as overseas)have attracted my interest in this area.
- Through the use of derivative products.it is possible to partially or fully transfer price risks by locking in asset prices.
- As the volume of trading is tremendously increasing in derivatives market.this analysis will be immense help to the investors.

OBJECTIVES OF THE STUDY

- To Analyse the operations of futures.
- To Find the profit/loss position of the futures.
- To Analyze the performance of derivatives with the help of futures.
- To Analyze investors perception towards investment in derivative market.
- To Identify the market trend and price movements in futures.

COLLECTION OF DATA

Sources of data

Research methodology is a systematic procedure of collecting information on order to analyse and verify a phenomenon the collecting of information is done in two principle sources they are as follows.

Primary data

It is the information collected directly with some references. in this study it is gathered with personal observation in trading times.

Secondary data

The secondary data was collected from already published sources such as NSE records,reference from the text books and journal relating to derivatives.

Sampling Size

3 (NIFTY,RELIANCE,WIPRO)

Techniques : for futures

1.long futures

2.short futures

ANALYSIS OF DATA

By preparing charts and tables from the data and compare them to find out which fund is giving high profit and return.

LONG FUTURES:

When the market is bullish we will take futures as long it means that when the market is going up future price is also going up in this way we will gain returns on that particular future .the calculation of return on future is as below.

Example:

The following table consists the future values of NIFTY From 01-07-2023 to 21-07-2023.

DATE	EXPIRY	OPEN PRICE	HIGH PRICE	LOW PRICE	CLOSE HIGH
01/07/2023	**21/07/2023**	15,765.10	15,775.05	15,696.00	15,710.60
02/07/2023	**21/07/2023**	15,743.95	15,754.95	15,659.10	15,741.55
05/07/2023	**21/07/2023**	15,757.00	15,546.50	15,757.00	15,858.10
06/07/2023	**21/07/2023**	15,829.95	15,930.60	15,815.25	15,837.45
07/07/2023	**21/07/2023**	15,826.00	15,900.60	15,788.80	15,886.40
08/07/2023	**21/07/2023**	15,852.10	15,889.90	15,694.05	15,735.40
09/07/2023	**21/07/2023**	15,700.05	15,755.00	15,641.05	15,722.45
12/07/2023	**21/07/2023**	15,777.00	15,811.90	15,657.50	15,711.95
13/07/2023	**21/07/2023**	15,798.25	15,842.55	15,758.25	15,833.80
14/07/2023	**21/07/2023**	15,805.10	15,893.25	15,777.05	15,869.05
15/07/2023	**21/07/2023**	15,879.00	15,967.50	15,866.55	15,937.30

16/07/2023	**21/07/2023**	15,911.10	15,970.00	15,890.00	15,936.00
19/07/2023	**21/07/2023**	15,770.00	15,836.45	15,705.95	15,752.40
20/07/2023	**21/07/2023**	15,711.00	15,741.00	15,586.00	15,637.20
21/07/2023	**21/07/2023**	15,695.75	15,721.25	15,562.75	15,711.00

So lot size of NIFTY is 75.So long futures@ 15,765.10 on 01/07/2023 ,it closes @15,711.00

Expiry Return=lot size *(closing price-opening price)

=75*(15,711.00-15,765.10)

=75*(54.1)

=4057.5

Therefore as the margin requirement for NIFTY FUTURES is 10000,then we get the return of 40.575% in one month.

SHORT FUTURES:

When the market is in bearish we will take futures as short it means that when the market is coming down future price is also coming down in this way we will gain returns on that particular future.

Example:

The following table contains the future value of RELIANCE from 01/07/2023 to 22/07/2023.

DATE	EXPIRY	OPEN PRICE	HIGH PRICE	LOW PRICE	CLOSE PRICE
01/07/2023	**21/07/2023**	2,117.00	2,128.75	2,102.65	2,079.30
02/07/2023	**21/07/2023**	2,106.95	2,138.00	2,102.35	2,087.20
05/07/2023	**21/07/2023**	2,144.00	2,159.00	2,136.35	2,102.70
07/07/2023	**21/07/2023**	2,121.00	2,132.45	2,104.15	2,090.85

08/07/2023	**21/07/2023**	2,118.40	2,119.65	2,084.95	2,088.25
09/07/2023	**21/07/2023**	2,090.90	2,095.60	2,070.00	2,118.20
12/07/2023	**21/07/2023**	2,077.15	2,104.75	2,039.00	2,099.70
13/07/2023	**21/07/2023**	2,099.90	2,106.20	2,091.55	2,098.00
14/07/2023	**21/07/2023**	2,105.00	2,110.00	2,087.00	2,107.65
15/07/2023	**21/07/2023**	2,062.20	2,103.40	2,062.20	2,155.80
16/07/2023	**21/07/2023**	2,092.00	2,122.00	2,091.70	2,096.30
19/07/2023	**21/07/2023**	2,099.85	2,126.45	2,018.80	2,102.70
20/07/2023	**21/07/2023**	2,070.15	2,110.20	2,093.50	2,098.00
21/07/2023	**21/07/2023**	2,115.15	2,115.15	2,099.25	2,107.65

So lot size of RELIANCE is 250.so short futures @2,117.00 on 01/07/2023 ,it closes on @ 2,107.65.

Expiry return=lot size *(opening price-closing price)

=250*(2,117.00-2,107.65)

=250*(9.35)

=2337.5

Therefore as the margin requirement for RELIANCE SHORT FUTURES is 10000, then we get the return of 23.375 % in one month.

FINDINGS:

- Through the study. it has found out that, the hedging provides a safe position on an underlying security. The loss gets shifted to a counter party. Thus the hedging covers the loss and risk. Sometimes, the market performs against the expectation. This will trigger losses. so the hedger should be a strategic and positive thinker.
- The study reveals the effectiveness of risk reduction using hedging strategies. It has found out that risk cannot be avoided. But can only be minimized.

- The anticipation of the hedger regarding the trend of the movement in the prices of the underlying security plays a key role in the result of the strategy applied.
- It has been found that, all the strategies applied on historical data of the period of the study were able to reduce the loss that rose from price risk substantially.

SUGGESTIONS:

- If an investor wants to hedge with portfolios, it must consist of scripts from different industries, since they are convenient and represent true nature of the securities market as a whole.
- The hedging tool to reduce the losses that may arise from the market risk. Its primary objective is loss minimization, not profit maximization .The profit from futures or shares will be offset from the losses from futures or shares, as the case may be.
- Hedger will earn a lower return compared to that of an un hedger. But the un hedger faces a high risk than a hedger.
- The hedger will have to be a strategic thinker and also one who think positively. He should be able to comprehend market trends and fluctuations. Otherwise, the strategies adopted by him earn him earn losses. A lot more awareness needed about the stock market and investment pattern, both in spot and derivative market. The working of BSE Training Institute and NSE Institutes are apprehensible in this regard.

CONCLUSION:

- Derivative trading provides lot of opportunities in the market but the investor should have a deep insight of derivatives and use of different product combinations. An investor should book profit than anticipating more profits because unlike equity markets small price movement on equity may show some adverse impact on the premium amount under futures. Short positions should try to hedge his/her positions to minimize losses rather anticipating huge profits Avoid taking positions in contact where liquidity is low.

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