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A Study on Futures Trading In Derivatives Market, Proddatur

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ABSTRACT

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 the guard themselves against uncertainties arising out of fluctuations in asset prices. By their very nature, the financial markets are made by a very high degree of volatility. Through the use of derivatives products, it is possible to partially or fully transfer price risks by locking-in asset prices. Financial derivatives came into spotlight in the 1970 period due to growing instability in the financial markets

Keywords: Financial Market, Derivatives, Futures, Options,

INTRODUCTION

Derivatives are a wide group of a 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, and 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 MARKET MEANING AND DEFINATION:

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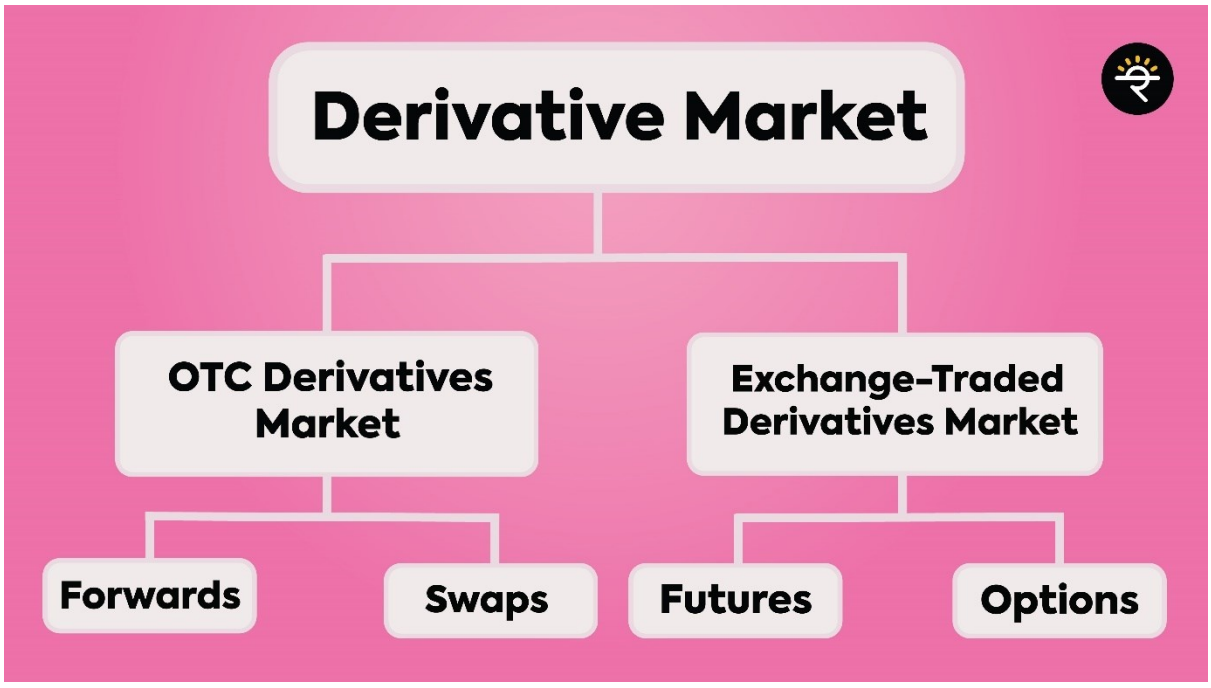
A futures contract in the derivatives market is a standardized, binding agreement between two parties to buy or sell an underlying asset at a predetermined price on a specific date in the future.

PROCESS OF DERIVATIVES MARKET:

Over the last three decades, the derivatives market has seen a phenomenal growth. A large variety of derivative contracts have been launched at exchanges across the world. Some of the factors driving the growth of financial derivatives are:

1. Increased volatility in asset prices in financial markets,
2. Increased integration of national financial markets with the international markets,
3. Marked improvement in communication facilities and sharp decline in their costs,
4. Development of more sophisticated risk management tools, providing economic agents a wider choice risk management and strategies.
5. Innovations in the derivatives market, which optimally combine the risk and returns over a large number of financial assets leading to higher returns, reduced risk as well as transactions.

TYPES Of DERIVATIVES MARKET:



Commodity derivatives: Commodity derivatives are investment tools that allow investors to profit from certain commodities without possessing them. The buyer of a derivatives

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contract buys the right to exchange a commodity for a certain price at a future date. The buyer may be buying or selling the commodity.

Financial derivative: A financial derivative is a contract between two or more parties whose value is based on an agreed-upon underlying financial asset (like a security) or set of assets (like an index). Common underlying instruments include bonds, commodities, currencies, interest rates, market indexes, and stocks

Forwards: Forwards are over the counter (OTC) derivatives that enable buying or selling an underlying on a future date, at an agreed upon price. The terms of a forward contract are as agreed between counterparties.

Futures: Futures are exchange traded forwards. A future is a contract for buying or selling a specific underlying, on a future date, at a price specified today, and entered through a formal mechanism on an exchange. The terms of the contract are specified by the exchange.

Options: An option is a contract that gives the right, but not an obligation, to buy or sell the underlying on or before a stated date and at a stated price. While buyer of option pays the premium and buys the right, writer/seller of option receives the premium with obligation to sell/buy the underlying asset, if the buyer exercises his right.

Swaps: A swap is an agreement made between two parties to exchange cash flow in the future according to a prearranged formula. Swaps are, broadly speaking, series of forward contracts. Swaps help market participants manage risk associated with volatile interest rates, currency exchange rates and commodity prices.

NEED FOR THE STUDY:

- It helps the investors to construct a diversified portfolio.
- This study suggests investors about investment in futures, options, and swaps.
- It is used to know the risk management in derivatives.

OBJECTIVE OF THE STUDY:

- ❖ To analyze the role of derivatives in the stock market.
- ❖ To identify and compare the futures, options, and swaps in derivatives in Indian stock market.
- ❖ To illustrate the growth and performance of futures and options and swaps.

ANALYSIS OF FUTURES:

SIMBOL	DATE	EXPIRY	OPEN	HIGH LOW	CLOSE
NIFTY	01/07/2024	22/07/2024	15,765.10 15,710.60	15,775.05	15,696.00

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NIFTY	02/07/2024	22/07/2024	15,743.95 15,741.55	15,754.95	15,659.10
NIFTY	05/07/2024	22/07/2024	15,757.00 15,858.10	15,546.50	15,757.00
NIFTY	06/07/2024	22/07/2024	15,829.95 15,837.45	15,930.60	15,815.25
NIFTY	07/07/2024	22/07/2024	15,829.95 15,886.40	15,900.60	15,788.80
NIFTY	08/07/2024	22/07/2024	15,852.10 15,735.40	15,889.90	15,694.05
NIFTY	09/07/2024	22/07/2024	15,700.05 15,722.45	15,755.00	15,641.05
NIFTY	12/07/2024	22/07/2024	15,777.00 15,711.95	15,811.90	15,657.50

LONG FUTURES:-

When the market is in 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 01-07-2024to 21-07-2024

T1--Data for NIFTY from 01-07-2024 to 21-07-2024:

NIFTY	13/07/2024	22/07/2024	15,798.25	15,842.55	15,758.25	15,833.80
NIFTY	14/07/2024	22/07/2024	15,805.10	15,893.25	15,777.05	15,869.05

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NIFTY	**15/07/2024**	**22/07/2024**	**15,879.00**	**15,967.50**	**15,866.55**	**15,937.30**
NIFTY	**16/07/2024**	**22/07/2024**	**15,911.10**	**15,970.00**	**15,890.00**	**15,936.00**
NIFTY	**19/07/2024**	**22/07/2024**	**15,770.00**	**15,836.45**	**15,705.95**	**15,752.40**
NIFTY	**20/07/2024**	**22/07/2024**	**15,711.00**	**15,741.00**	**15,586.00**	**15,637.20**
NIFTY	**21/07/2024**	**22/07/2024**	**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 01/07/2024, it closes @15,711.00

SIMBOL	DATE	EXPIRY	OPEN	HIGH	LOW	CLOSE
RELIANCE	01/07/2024	22/07/2024	2,117.00	2,128.75	2,102.65	2,107.50
RELIANCE	02/07/2024	22/07/2024	2,106.95	2,138.00	2,102.35	2,134.60
RELIANCE	05/07/2024	22/07/2024	2,144.00	2,159.00	2,136.35	2,155.85
RELIANCE	07/07/2024	22/07/2024	2,121.00	2,132.45	2,104.15	2,115.85
RELIANCE	08/07/2024	22/07/2024	2,118.40	2,119.65	2,084.95	2,096.30
RELIANCE	09/07/2024	22/07/2024	2,090.90	2,095.60	2,070.00	2,079.30
RELIANCE	12/07/2024	22/07/2024	2,077.15	2,104.75	2,039.00	2,087.20
RELIANCE	13/07/2024	22/07/2024	2,099.90	2,106.20	2,091.55	2,102.70
RELIANCE	14/07/2024	22/07/2024	2,105.00	2,110.00	2,087.00	2,090.85
RELIANCE	15/07/2024	22/07/2024	2,062.20	2,103.40	2,062.20	2,088.25
RELIANCE	16/07/2024	22/07/2024	2,092.00	2,122.00	2,091.70	2,118.20

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RELIANCE	**19/07/2024**	**22/07/2024**	**2,099.85**	**2,126.45**	**2,093.50**	**2,099.70**
RELIANCE	**20/07/2024**	**22/07/2024**	**2,070.15**	**2,110.20**	**2,018.80**	**2,098.00**
RELIANCE	**21/07/2024**	**22/07/2024**	**2,115.15**	**2,115.15**	**2,099.25**	**2,107.65**

On 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 Rs.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. The calculation of return on short future is as below.

Example:

The following table consists the future values of **RELIANCE** from 01- 07-24 to 22-07-2024

T2--Data for RELIANCE from 01-07-2024 to 22-07-2024:

So lot size of RELIANCE is 250. So short futures @ 2,117.00on 01/07/2024, it closes @ 2,107.65 on 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 NIFTY FUTURES is Rs.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 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.

SUGGESTIONS:

- Implement measures to improve transparency and regulation in derivatives markets to increase investor confidence and reduce systemic risks.
- Strengthen regulatory oversight, reporting requirements, and risk management practices to mitigate market manipulation, fraud, and misconduct.
- Encourage innovation and product development to expand the range of derivatives available to investors, including new asset classes, structured products, and customized derivatives contracts.

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 in equity may show some adverse impact on the premium amount under Futures .

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