DOWNLOAD PDF FINANCIAL FUTURES MARKETS

Chapter 1 : Financial Futures - Futures Fundamentals

Futures markets or futures exchanges are where these financial products are bought and sold for delivery at some agreed-upon date in the future with a price fixed at the time of the deal.

See Statistical analysis of financial markets , statistical finance Much effort has gone into the study of financial markets and how prices vary with time. This is the basis of the so-called technical analysis method of attempting to predict future changes. One of the tenets of "technical analysis" is that market trends give an indication of the future, at least in the short term. The claims of the technical analysts are disputed by many academics, who claim that the evidence points rather to the random walk hypothesis , which states that the next change is not correlated to the last change. The role of human psychology in price variations also plays a significant factor. Large amounts of volatility often indicate the presence of strong emotional factors playing into the price. Fear can cause excessive drops in price and greed can create bubbles. In recent years the rise of algorithmic and high-frequency program trading has seen the adoption of momentum, ultra-short term moving average and other similar strategies which are based on technical as opposed to fundamental or theoretical concepts of market Behaviour. The scale of changes in price over some unit of time is called the volatility. Large changes up or down are more likely than what one would calculate using a Gaussian distribution with an estimated standard deviation. Financial market slang[edit] Poison pill , when a company issues more shares to prevent being bought out by another company, thereby increasing the number of outstanding shares to be bought by the hostile company making the bid to establish majority. Bips, meaning "bps" or basis points. A basis point is a financial unit of measurement used to describe the magnitude of percent change in a variable. One basis point is the equivalent of one hundredth of a percent. Quant, a quantitative analyst with advanced training in mathematics and statistical methods. Rocket scientist , a financial consultant at the zenith of mathematical and computer programming skill. They are able to invent derivatives of high complexity and construct sophisticated pricing models. They generally handle the most advanced computing techniques adopted by the financial markets since the early s. Typically, they are physicists and engineers by training. IPO , stands for initial public offering, which is the process a new private company goes through to "go public" or become a publicly traded company on some index. White Knight , a friendly party in a takeover bid. Used to describe a party that buys the shares of one organization to help prevent against a hostile takeover of that organization by another party. Smurfing , a deliberate structuring of payments or transactions to conceal it from regulators or other parties, a type of money laundering that is often illegal. Bidâ€”ask spread , the difference between the highest bid and the lowest offer. Pip , smallest price move that a given exchange rate makes based on market convention. The intermediary functions of financial markets include the following: Financial markets facilitate the transfer of real economic resources from lenders to ultimate borrowers. Financial markets allow lenders to earn interest or dividend on their surplus invisible funds, thus contributing to the enhancement of the individual and the national income. Financial markets allow for the productive use of the funds borrowed. The enhancing the income and the gross national production. Financial markets provide a channel through which new savings flow to aid capital formation of a country. Financial markets allow for the determination of price of the traded financial assets through the interaction of buyers and sellers. They provide a sign for the allocation of funds in the economy based on the demand and to the supply through the mechanism called price discovery process. Financial markets provide a mechanism for selling of a financial asset by an investor so as to offer the benefit of marketability and liquidity of such assets. The activities of the participants in the financial market result in the generation and the consequent dissemination of information to the various segments of the market. So as to reduce the cost of transaction of financial assets. Financial Functions Providing the borrower with funds so as to enable them to carry out their investment plans. Providing the lenders with earning assets so as to enable them to earn wealth by deploying the assets in production debentures. Providing liquidity in the market so as to facilitate trading of funds. Providing liquidity to commercial bank Facilitating credit creation.

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financial institutions commonly take a position in interest rate futures to create a short hedge, which represents the sale of a futures contract cross-hedging the use of a futures contract on one financial instrument to hedge a position in a different financial instrument.

Definition[edit] According to The New Palgrave Dictionary of Economics Newbery , futures markets "provide partial income risk insurance to producers whose output is risky, but very effective insurance to commodity stockholders at remarkably low cost. Speculators absorb some of the risk but hedging appears to drive most commodity markets. The equilibrium futures price can be either below or above the rationally expected future price backwardation or contango Rollover hedges can extend insurance from short-horizon contracts over longer periods. The code facilitated the first derivatives, in the form of forward and futures contracts. An active derivatives market existed, with trading carried out at temples. He tells the story of Thales , a poor philosopher from Miletus who developed a "financial device, which involves a principle of universal application". Thales used his skill in forecasting and predicted that the olive harvest would be exceptionally good the next autumn. Confident in his prediction, he made agreements with local olive-press owners to deposit his money with them to guarantee him exclusive use of their olive presses when the harvest was ready. Thales successfully negotiated low prices because the harvest was in the future and no one knew whether the harvest would be plentiful or pathetic and because the olive-press owners were willing to hedge against the possibility of a poor yield. When the harvest-time came, and a sharp increase in demand for the use of the olive presses outstripped supply availability of the presses , he sold his future use contracts of the olive presses at a rate of his choosing, and made a large quantity of money. Modern era[edit] The first modern organized futures exchange began in at the Dojima Rice Exchange in Osaka , Japan. Before the exchange was created, business was conducted by traders in London coffee houses using a makeshift ring drawn in chalk on the floor. Lead and zinc were soon added but only gained official trading status in The exchange was closed during World War II and did not re-open until The exchange ceased trading plastics in Chicago has the largest future exchange in the world, the Chicago Mercantile Exchange. Chicago is located at the base of the Great Lakes , close to the farmlands and cattle country of the Midwest , making it a natural center for transportation, distribution, and trading of agricultural produce. Gluts and shortages of these products caused chaotic fluctuations in price, and this led to the development of a market enabling grain merchants, processors, and agriculture companies to trade in "to arrive" or "cash forward" contracts to insulate them from the risk of adverse price change and enable them to hedge. For most exchanges, forward contracts were standard at the time. However, most forward contracts were not honored by both the buyer and the seller. For instance, if the buyer of a corn forward contract made an agreement to buy corn, and at the time of delivery the price of corn differed dramatically from the original contract price, either the buyer or the seller would back out. Additionally, the forward contracts market was very illiquid and an exchange was needed that would bring together a market to find potential buyers and sellers of a commodity instead of making people bear the burden of finding a buyer or seller. Trading was originally in forward contracts ; the first contract on corn was written on March 13, In standardized futures contracts were introduced. Following the end of the postwar international gold standard , in the CME formed a division called the International Monetary Market IMM to offer futures contracts in foreign currencies: In a regional market was founded in Minneapolis, Minnesota , and in introduced futures for the first time. Trading continuously since then, today the Minneapolis Grain Exchange MGEX is the only exchange for hard red spring wheat futures and options. The first organised futures market was established only in by the Bombay Cotton Trade Association to trade in cotton contracts. In modern times, most of the futures trading happens in the National Multi commodity Exchange NMCE which commenced futures trading in 24 commodities on 26 November on a national scale. Recent developments[edit] The s saw the development of the financial futures contracts, which allowed trading in the future value of interest rates. Today, the futures markets have far outgrown their agricultural origins. In April the entire ICE portfolio of energy futures became fully electronic. In the New York Stock Exchange teamed up with the Amsterdam-Brussels-Lisbon-Paris Exchanges "Euronext" electronic exchange to form the first transcontinental futures and options exchange. These two developments as well as the sharp growth of internet futures trading platforms developed by a number of trading companies clearly points to a race to total internet trading of futures and options in the coming years. Futures contract Exchange-traded contracts are standardized by the exchanges where they trade. The contract details what asset is to be bought or sold, and how, when, where and in what quantity it is to be delivered. The terms also specify the currency in which the contract will trade, minimum tick value, and the last trading day and expiry or delivery month. Before the market opens on the first day of trading a new futures contract, there is a specification but no actual contracts exist. Futures contracts are not issued like other securities, but are "created" whenever Open interest increases; that is, when one party first buys goes long a contract from another party who goes short. Contracts are also "destroyed" in the opposite manner whenever Open interest decreases because traders resell to reduce their long positions or rebuy to reduce their short positions. After expiry, each contract will be settled , either by physical delivery typically for commodity underlyings or by a cash settlement typically for financial underlyings. The contracts ultimately are not between the original buyer and the original seller, but between the holders at expiry and the exchange. Because a contract may pass through many hands after it is created by its initial purchase and sale, or even be liquidated, settling parties do not know with whom they have ultimately traded. Compare this with other securities, in which there is a primary market when an issuer issues the security, and a secondary market where the security is later traded independently of the issuer. Legally, the security represents an obligation of the issuer rather than the buyer and seller; even if the issuer buys back some securities, they still exist. Only if they are legally cancelled can they disappear. Standardization[edit] The contracts traded on futures exchanges are always standardized. In principle, the parameters to define a contract are endless see for instance in futures contract. To make sure liquidity is high, there is only a limited number of standardized contracts. Clearing and settlement[edit] Most large derivatives exchanges operate their own clearing houses, allowing them to take revenues from post-trade processing as well as trading itself. By netting off the different positions traded, a smaller amount of capital is required as security to cover the trades. There is sometimes a division of responsibility between provision of trading facility, and that of clearing and settlement of those trades. Derivative exchanges like the CBOE and LIFFE take responsibility for providing the trading environments, settlement of the resulting trades are usually handled by clearing houses that serve as central counterparties to trades done in the respective exchanges. Central counterparty[edit] Derivative contracts are leveraged positions whose value is volatile. They are usually more volatile than their underlying asset. This can lead to credit risk , in particular counterparty risk: In a safe trading environment, the parties to a trade need to be assured that the counterparties will honor the trade, no matter how the market has moved. This requirement can lead to complex arrangements like credit assessments and the setting of trading limits for each counterparty, thus removing many of the advantages of a centralised trading facility. To prevent this, a clearing house interposes itself as a counterparty to every trade, in order to extend a guarantee that the trade will be settled as originally intended. This action is called novation. As a result, trading firms take no risk on the actual counterparty to the trade, but instead the risk falls on the clearing corporation performing a service called central counterparty clearing. The clearing corporation is able to take on this risk by adopting an efficient margining process. Clearing houses charge two types of margins: The Initial Margin is the sum of money or collateral to be deposited by a firm to the clearing corporation to cover possible future loss in the positions the set of positions held is also called the portfolio held by a firm. Several popular methods are used to compute initial margins. The Mark-to-Market Margin MTM margin on the other hand is the margin collected to offset losses if any that have already been incurred on the positions held by a firm. This is computed as the difference between the cost of the position held and the current market value of that position. If the resulting amount is a loss, the amount is collected from the firm; else, the amount may be returned to the firm the case with most clearing houses or kept in reserve depending on local practice. The positions held by the clients of the exchange are marked-to-market daily and the MTM difference computation for the next day would use the new cost figure in its calculation. Clients hold a margin account with the exchange, and every day the swings in the value of their positions is added to or deducted from their margin account. If the margin account gets too low, they have to replenish it. In this way it is highly unlikely that the client will not be able to fulfill his obligations arising from the contracts. As the clearing house is the counterparty to all their trades, they only have to have one margin account. This is in contrast with OTC derivatives, where issues such as margin accounts have to be negotiated with all counterparties.

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Pre-Market Data, Stock Market Quotes, Fair Value, Futures, Europe & Asia-Pacific Markets, Volatility Index, World Markets Information.

Stock Offer your own opinion on this issue. While excessive speculation could affect the underlying stock price or stock index, more informed investors should be able to correct for any mispricing, and therefore push the price toward its fundamental value. In addition, speculators could trade the underlying stocks as well and could have a direct effect on the stock price. Describe the general characteristics of a futures contract. How does a clearinghouse facilitate the trading of financial futures contracts? A futures contract is a standardized agreement to deliver or receive a specified amount of a specified financial instrument at a specified price and date. The clearinghouse records all transactions and guarantees timely payments on futures contracts. This precludes the need for a purchaser of a futures contract to check the creditworthiness of the contract seller. Gains from Purchasing Futures. Explain how purchasers of financial futures contracts can offset their position. How is their gain or loss determined? What is the maximum loss to a purchaser of a futures contract? Purchasers of financial futures contracts can offset their positions by selling the identical contracts. Their gain is the difference between what they sold the contracts for and their purchase price. The maximum loss is the amount to be paid at settlement date as specified by the contract. Gains from Selling Futures. Explain how sellers of financial futures contracts can offset their position. Sellers of financial futures contracts can offset their positions by purchasing identical contracts. Their gain is the difference between the selling price specified when they sold futures contracts versus the purchase price specified when they purchased futures contracts. Long versus Short Hedge. Explain the difference between a long hedge and a short hedge used by financial institutions. When is a long hedge more appropriate than a short hedge? A long hedge represents a purchase of financial futures and is appropriate when assets are more rate-sensitive than liabilities. A short hedge represents a sale of financial futures and is appropriate when liabilities are more rate-sensitive than assets. Describe the act of cross-hedging. What determines the effectiveness of a cross-hedge? Cross-hedging represents the use of financial futures on one instrument to hedge a different instrument. The hedge will be more effective if the instruments are highly correlated. Describe stock index futures. How could they be used by a financial institution that is anticipating a jump in stock prices but does not yet have sufficient funds to purchase large amounts of stock? Explain why stock index futures may reflect investor expectations about the market more quickly than stock prices. The institution could purchase stock index futures. If the stock market experiences increased prices, the stock index will rise. Thus, the stock index futures position will generate a gain. As new information becomes available, investors can purchase stock index futures with a small up-front payment. The purchase of actual stocks may take longer because a larger investment would be necessary, and because time may be needed to select specific stocks. Explain how index arbitrage may be used. If the stock index futures price is different from the prices of stocks making up the index, index arbitrage could be executed. If the index is priced higher, securities firms could purchase the stocks and simultaneously sell stock index futures. Elon Savings and Loan Association has a large number of year mortgages with floating interest rates that adjust on an annual basis and obtains most of its funds by issuing five-year certificates of deposit.

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the purchase of financial futures contracts to hedge against a possible decrease in interest rates which will raise bond price (locks in purchase price) cross-hedging the use of a futures contract on one financial instrument to hedge a position in a different financial instrument (effectiveness relies on correlation between changes in market.

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FINANCIAL FUTURES MARKETS. 1 Financial Future Market-skw 10/15/ Introduction 2 Forward, futures, and options *are collectively.*

Chapter 6 : Financial market - Wikipedia

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Chapter 7 : Stock Screener - Yahoo Finance

This page is your gateway for information on world financial markets. Included are World Stock Market, Indices Futures, Commodities and Financial Futures.

Chapter 8 : Futures exchange - Wikipedia

Coverage of premarket trading, including futures information for the S&P , Nasdaq Composite and Dow Jones Industrial Average.

Chapter 9 : What is Financial Futures Market? definition and meaning

Futures are financial contracts obligating the buyer to purchase an asset or the seller to sell an asset, such as a physical commodity or a financial instrument, at a predetermined future date and.