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MODERN TENDENCIES IN THE WORLD FUTURES MARKETS DEVELOPMENT: LESSONS FOR UKRAINE

Abstract

Modern tendencies of futures market development as the fixed-term segments of the world financial market were studied. The paper highlights fact that they are the markets of basic price risks assets, define not simply the price forecasts, but also real assets prices via hedge mechanism, i.e. is the future profile of economy. The accelerating development of the futures markets in scope, instruments and quantity of participants, in comparison with American and Asian, was emphasized. The futures markets were proposed to be characterized as a third sector of financial market. The problem of adequate evaluation of the futures markets scope in comparison with the scopes of other segments of financial market was discussed. It was proposed also to amend the existing concepts of commodity, stock and share markets implying the establishment of their fixed-term futures markets segments.

Recently the world economic community pointed out the substantial growth of scales, strengthening of unity and rising of importance of the world financial markets. The research of foreign and domestic scientists and people involved in finance activity who view these phenomena as formation of global financial architecture, was increased considerably. These phenomena, in particular, were analyzed by famous American stockbroker G. Soros (19;58), Russian banker and scientist D. M. Mykhailov (13;11–119). Such Ukrainian scientists as

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E. L. Nayman (15;9–104), O. M. Sharov (23), Z. O. Lutsyshyn (10), Ye. A. Shapovalov (22) can be also found among those who studied these issues.

The above mentioned and other scientists usually study the tendencies of the world market formation and its separate segments: stock, exchange markets, secondary financial instruments market and also ways to adjust the world practice to Ukrainian environment. Moreover, the majority of scientists introduce into scientific terminology the notion of «the fixed segment of financial market», which is no more identified with the money market.

The analysis of the previous period of establishment development of and of some definite financial market segments reveals that any single part starts to develop fairly if there's a need for it. As the world practice proves, market establishment is related to the emergence of its extra-exchange forms. Exchange trade comes out afterwards. In addition, the fixed-term contracts with introduction of market assets foresaw greatly the usage of instruments much the same as financial.

The speculative objective was of subordinate importance. The key motive of extensive practice of the fixed-term contracts on extra-exchange and later on on exchange markets was the necessity for price risks insurance. That was the way the forwarding contracts appeared and after their complete standardization on stock markets futures contracts emerged which, in their turn, became more attractive instrument for most profitable and risky investments, explicitly, they started to be used in a speculative meaning.

Plungers, while buying risks apart from the basic assets, started to obtain them, giving in such a way the opportunity to manufacturers and trade organizations to insure against the negative changes of prices and exchange rates in the future.

At present the world global market provides such prospects:

- to hedge the risks related to the presence on a definite market, using the correlation with other markets;
- to choose the most beneficial options of investment with an optimal relation of profitability and risk;
- to analyze the essence of market phenomena deeper which can hardly be figured out by analyzing of a separate market segment.

The fixed-term components, first of all, play a significant role in macroeconomic stabilization of financial sphere enabling its players to use the innovational technologies and instruments to manage the system of financial risks. The fixed-term market, especially its exchange element – futures, belongs to the market of perfect competition, which daily encounters the interaction of supply and demand due to their maximum concentration. The very market is used by foreign scientists for analysis and illustration of modern economic theories, that, in their turn, are used as a source for strategic and tactical decisions-making based on analysis and projecting of future prices and rates of basic assets.

Basically, the establishment of this market segment in Ukraine during the reforms period has not been accomplished. The fixed-term contracts are made neither on exchange nor on extra-exchange markets. Moreover, since 1998 the National Bank of Ukraine «temporarily» banned the fixed-term currency-oriented contracts. The key motive of such phenomena is the lack of complex analysis of modern theories their practical application in the West.

This caused, in our opinion, fragmentary and non-systematic study of the essence of the fixed-term financial instruments. To be more precise, only futures and optional contracts with basic assets ranging from grain to currency, and interest rates with simultaneous failures in exchange and trade practices have been analyzed.

Within the first period of market transformations, the scientists and lawmakers from Ukraine, as well as from the other former USSR countries, held superficial and rather stirring analyses of exchange markets. Moreover, their studies were generally based on Russian literature published before 1917 or during the New Soviet Economic Policy that is the early 20-ies of the XX century. This enabled to restructure characteristic for the XX century universal commodity exchanges, where the trade in different goods on terms of prompt delivery was allowed. Similar processes took place during the period when stock exchange and exchange markets were established.

Consequently, prospectless from today's perspective exchanges as powerful wholesale markets, were organized on a state level. At present, they are transformed into centers for market surveying and fixed-term financial contracting. Such state of affairs was preconditioned by adopted faulty exchange legislation that did not stipulate the practice of fixed-term contracts in exchange and trade (3,2).

Next period of exchange establishment and its functioning in Ukraine proved that it is impossible to plan organization of the real-stock rotation and financial instruments through exchanges with informational technologies development and increase in trade volumes. This was possible and feasible in the early XX century, but in XXI century the urgent necessity in exchange development on price risks markets emerges. These markets should function separately from real assets markets facilitating the management of flows on macro and micro levels with price instability in a highly efficient way.

Within the next years it was rather problematic for exchanges established in 1991–1992 to implement the fixed-term contracts. At the same time the adoption of such imperfect laws as notorious Law «On Taxation of Enterprises» (1), was rather unexpected for the stock exchange operators and for the state stock regulation authorities. The law defines the fixed-term contracts: commodity, exchange, financial and futures, forwarding and options.

The State Committee of Securities and Stock Market (SCSSM) promulgates its own normative legal documents (18) and drafts a Bill «On Derivative Securities» (4). Nevertheless, it was never introduced in Supreme Council of

Ukraine. However, on December 21, 2001, the Bill «On Fixed-Term Financial Instruments» was adopted. It was put forward by the Head of the Sub-Committee on Economic Legislation Issues of Economic Policy, Economic Management, Property and Investment Committee, S. O. Moskvin (5). According to this Bill, the term-fixed financial instruments include futures and options, mostly stock, but the notions of «the fixed-term futures market» and «the fixed-term futures prices» do not belong here, the full list of participants is not submitted either, etc.

The author studies the processes of futures markets functioning for the last 10 years. It is worthy noting that currently, especially in Europe, those markets experience the revolutionary stage in their development, whereas the loss of interest to such studies in Ukraine is observed. The above lead not just to decrease of dissertation works on exchange problems, but also to the exemption from the normative part of the specialist curricula the courses «Exchange Business», «Stock Market», and «Derivative Financial Instruments», etc.

The «Exchange Business» major allows for training of only first-level accreditation specialists. At present it is possible to ascertain that neither market exchange culture and scientific school redevelopment, nor specialists' training of a new generation able to operate in dynamic environment, was performed in Ukraine. And all that occurs when, as financial engineers and professors of Saint Jones University (N.Y.) G. F. Marshall and V. K. Bansall state, modern corporations feel a pressing need for such talents up to now concentrated in the exchange businessmen environment. Due to the companies' stronger realization of the necessity in risks analysis, in risks management and ability to reduce costs at the expense of entering the non-traditional markets, such demand will definitely rise (11).

The numerous attempts to establish fixed-term segments on currency and cereals exchange Ukrainian markets were condemned to failure against this background. Such state of affairs conditioned considerable lagging in domestic science on the latest financial risks management technologies under the increased price fluctuations, definition of place and nature of fixed-term financial markets in the forecasting of future economic profile etc.

It is obvious that during this period European futures exchanges become more active. Most of them did not exist 10 years before. Nowadays London International Financial Futures Exchange (LIFFE) and Paris Financial Futures Exchange (MATIF) have increased considerably their volumes of trade. Their growth in contracts made per year equals to 500%.

The process of merging and integration of the European fixed-term exchanges that compete successfully with American counterparts can be observed. Thus, in 2002 the first place in contracting took electronic exchange EUREX (European Derivatives Exchange), which was established in 1998 as a result of Deutsche Terminborse (DTB) and Swiss SOFFEX merging. This process is accompanied with intensificated research and studies of new instruments and technologies by scientists and practical financiers operating on the exchange and extra exchange markets. There is left much to do to catch up in this direction with East European countries and Russia, where futures markets presently are united with the world network.

Modern futures stock market is a financial institute that simplifies trade considerably and reduces its price. Some western economists believe that such exchange establishment was resulted by the commercial revolution and consider it to have some organizational and planning force that makes the whole economy more dynamic.

Due to the operation of trade as well as industrial transnational corporations (TNC), the production, especially of agricultural and industrial raw materials, is concentrated and centralized, which increases the marketability of goods. Commodities enter the market as a commodity capital that is subjected to the market change risks and this, in its turn, provides for insurance by the exchange mechanism. Futures trade improves constantly as it is concentrated in the main financial and world centers.

However, the tragedy of September 11, 2001 has showed all its vulnerability in the meaning of physical destruction. Nevertheless, in this case the world financial elite has found the optimal solution of this problem through implementation of real-time electronic tenders at different financial centers that gave the opportunity to operate at the European and Asian trade markets for the period of the American tragedy.

The futures market's economic nature varies constantly. This problem causes not only theoretical interest, but it is also very complicated and comprehensive. As a specific financial institution, that meets the needs of commodity and, lately, financial markets, futures market is a price market that defines the exchange quotations and via the hedge mechanism the actual prices of real goods or financial instrument.

At present, futures exchange is a financial institution that completes crediting of banks on the stage of marketing and storage of goods. This instrument redistributes the produced value added and investment sphere. The companies that regularly use the futures mechanism are more competitive due to possibility to optimize the price of goods, capital and currency.

Lately, the futures exchange significance increases as the capital flows here. Under the modern state of affairs, one of the key reasons of economic transformations is the paper currency devaluation that is imperative for exchange too. Characteristic for such economy money «outflow» into commodities stimulates investing in the fixed-term contracts. Devaluated money investment into the goods privilege matters greatly for investors.

It is essential to emphasize also the growing interrelationship of the futures exchange trade with the banking sphere. For the last 10–15 years the banks from developed countries take an active participation in the futures trade expansion as they are attracted by high profitability of credits allotted to speculators and hedgers. Interest rates of these credits exceed the standard norms. Some banks actively speculate on the stock exchanges by their own, operate with the exchange gold stocks and other precious metals of the futures commodity exchanges.

Ukraine still faces the urgent problem of prices and rates insurance during the export-import operations as main international markets have great market fluctuations amplitude. This can be equally applied to the commodity, raw-material and financial markets. It is worthy to sanction the Ukrainian exporters and hedgers to hedge on international futures markets so far since some of them do operate already through their offshore affiliations.

More pressing is the problem of prices and rates forecasting. Therefore, we consider it to be more reasonable to view the process of domestic fixed-term financial market establishment, including futures, in a broader context. The point is to develop the adequate derivative financial instruments that would meet the commodity and financial markets needs, to form a professional community of its participants and modern exchange infrastructure, to create favorable environment for Ukrainian investors on the foreign markets.

During 1990's, the world economic development was characterized by the increased price instability. Moreover, price fluctuations acquired unexpected scope, the rate, frequency and amplitude of price fluctuations grew immensely. Occasionally, the so-called price «shocks» occur. Thus, in 1987, 1997 and 2000, the oil price leap caused a crisis phenomenon on all markets including financial. After the Breton-Woods system of stable exchange rates collapse, the inflation processes increased up greatly, resulting in volatility of interest rates.

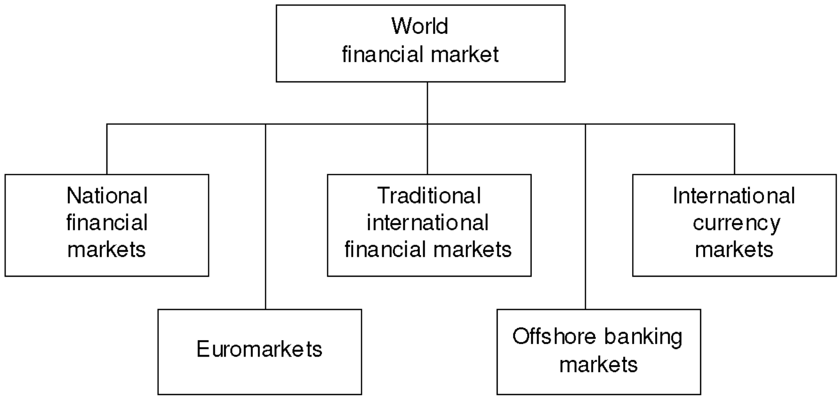
It is difficult to predict these processes because they occur during the market globalization period. Global processes emerge in the economy as a result of the global production and marketing development, when a company ceased to depend just on capital markets of the country of its origin and learned to mobilize it on other markets abroad.

Following the author, it is necessary to define the futures markets' place in the structure of financial markets. This would allow to seize its economic essence, to show the role and meaning of economy in general. Most of domestic investigators of the world financial market segment it using the terms of contracts as a defining feature. As a rule, according to this feature, financial market is segmented into money market and capital market (6), (7), (21).

Nonetheless, the foreign literature presents a bit different approach. Thus, rather untraditional structure was presented by Saint-Jones University (New-York) professors M. V. Eng, F. A. Lis and L. G. Mayer (24). According to their version, financial market is composed of 5 elements such as: national financial markets, traditional international financial markets, international currency markets, Euromarkets and offshore banking markets (Fig. 1).

Fig. 1.

The World Financial Market (24).



National financial markets are composed of money markets, short-term and long-term loan capital and currency market. Developed markets include also the market of derivative financial instruments (futures and optional contracts). However, such markets are restricted in some way by the state economic policy.

Traditional international financial markets provide services on loans and investments between residents of two countries using one currency. For instance, in 1998 «Ukreximbank» took a 30 million German mark credit guaranteed by the Cabinet of Ministers of Ukraine and amounting to for financing small and medium business development (9). Such operations run according to the rules established between contractors.

International currency markets make it possible to carry out a real-time trade in different currencies on the leading currency centers, such as New-York, London, Tokyo, Frankfurt-on-Main, Paris, Chicago, etc. The statutory rules and the rules set by self-controlled currency market organizations regulate the procedure of contracting on these markets.

Euromarkets consist of Eurocurrency markets, Eurobond markets, Eurodollar futures and options markets, currency and interests swaps markets.

Offshore bank markets can be divided into: «paper» and «functional». The first ones relate to the process of documentation arrangement, only few or no operations run there. The second ones are strongly related to the deposit operations and crediting. The banks, to avoid control of their activity and to minimize tax payments, use such «securities» centers as Bahama and Cayman Islands. A number of the fixed-term contracts are made here; derivative financial instruments are purchased and sold here.

Apparently, the above structure of the world financial market is based on such classifying feature as state regulation. But every element of this structure has the fixed-term financial instruments in its use. In this context O. M. Mozhovyy (14), O. D. Vasylyk (6), A. O. Zadoya, I. P. Tkachenko (7), A. A. Chukhno, S. A. Selinkov (21), I. V. Tokmakova, V. H. Krasnov (20) relatively conditionally divide the financial market into the money with other payment means market and the capital market, which, in its turn, is composed of medium-term and long-term bank crediting and securities market. Some authors of this paper specify the currency market by the peculiarity of its regulation though in this case the other classification criterion can be used. O. D. Vasylyk (6, 322) singles out the financial services market.

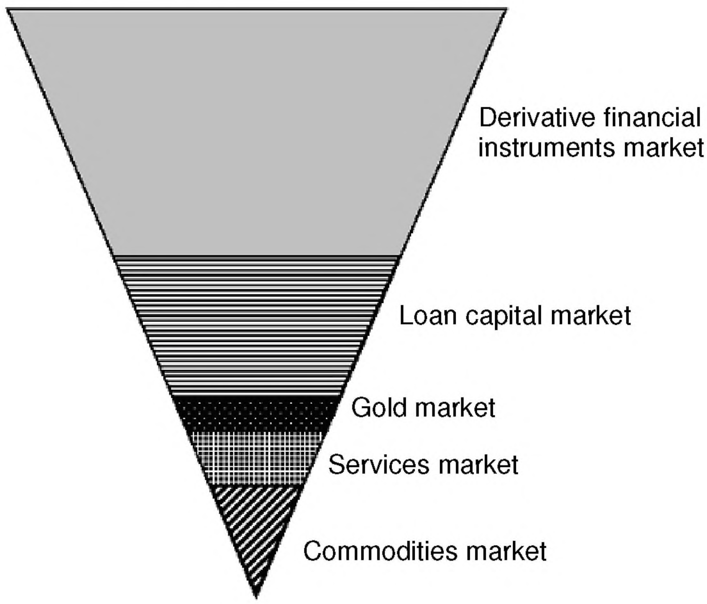
It is essential to draw attention to a rather superficial analysis of this problem, shown in I. V. Tokmakova's and V. H. Krasnova's (20;112) paper in particular. From our point of view, when analyzing the existing economic process, it is essential to go far beyond educational aids and textbooks, to consider the monographs and dissertational works of Ukrainian as well as of foreign scientists. Moreover, some textbooks, such as published recently in Russia by A. A. Kylyachkov and L. A. Chaldaeva (8) comprise a different interpretation of the similar categories and notions. Thus, initially these authors submit a traditional structure of financial market presenting it as a system of interrelated currency, credit, and securities markets (8, 13). Afterwards, the credit market is segmented into money market, capital market and financial market. Furthermore, the latter absolutely reasonlessly is identified with the securities market (8, 18).

Such Ukrainian scientists as I. V. Tokmakova and V. H. Krasnov, mentioned above, made several oversights too. Thus, their studies contain a range of essential deviations in the financial market structure revealed above. Firstly, the notion of «the debt instruments market» include the securities market, as even share is a title of property and emitter's liability to shareholders at the same time. Secondly, the financial derivatives market is analyzed fragmentarily and it is integrated with the securities market, while currency swaps, forward and future contracts are not securities, though they are the derivative financial instruments.

After that, the above-mentioned authors suggest the structure of the world financial market resembling an overturned triangle (Fig. 2) where the scopes of commodity and services markets are shown as really small ones in comparison with the loan capital market and with the derivative financial markets.

Fig. 2.

The structure of the world financial market (8)



This implies that these scientists support the idea of a certain group of economists that such market relation is an indicator of economic crisis.

Practical trader and financial analyst of Ukrainian stock market, the author of famous in Ukraine and Russia book on investment problems, E. L. Nayman (15), stresses that modern economic philosophy distinguishes four main investment markets that provide their participants with extensive opportunities in risks investment and more profitable investments. These markets most comprehensively reflect the world economic political and social processes. They are as follows:

- stock market;
- debt instruments market (most countries split it into bond market and commercial securities market);
- commodity market (generally commodity futures, options and commodity price indices market);
- currency market.

Every segment has a considerable quantity of liquid instruments, permitting to develop the highly efficient investment strategies. Exchange fixed-term segment of these markets is the most transparent. That allows to use different fixed-term contracts, to implement individual trade strategies predetermined by events that are happening in the world. When a participant of a fixed-term market stands at a real manufacturer's and consumer's side, it helps him to handle problems (insurance, forecasting of future profits etc.). It is noticeable that professional participants of the above-mentioned markets get online and generalized (supplied with analysts' commentaries) information on price and rates dynamics continuously. This information is published in many economic publications (newspapers, magazines, exchange reports) and is in the Internet. Apart from such famous daily financial newspapers as «Wall Street Journal», «Financial Times», there is at least a dozen publications, that analyze different information on the above markets, available in market economies every day.

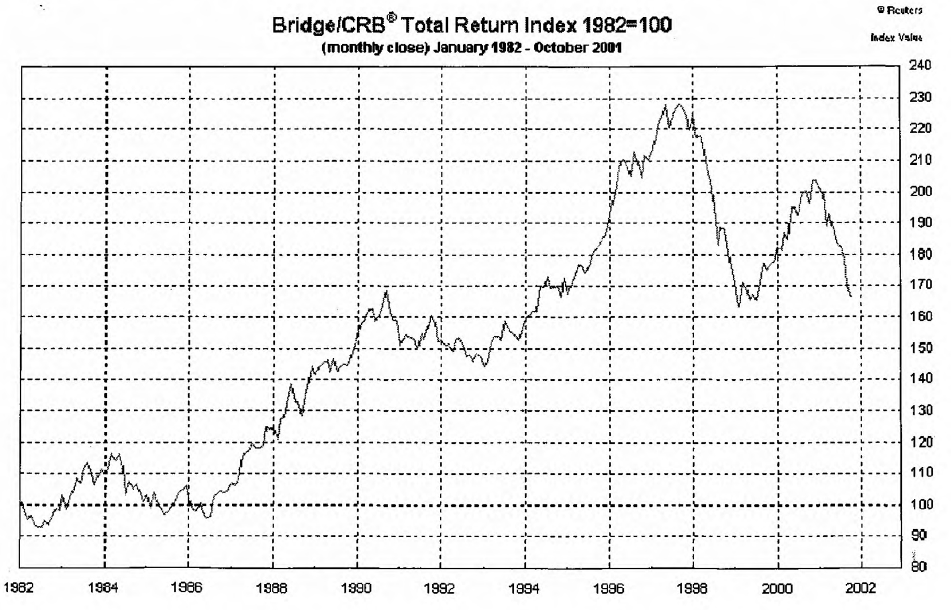
In France, for example, a public newspaper «Bourse Plus» (20), the magazine for professional investors «Action Future» (26), specialized financial magazine «Finances Magazine» (25), and many others can be found among them. Most of them are issued with the educational purpose. Today the most popular are the articles that study problems of the technical analysis, teach individual investors how to use such innovations for French market derivative financial instruments as options and warranties. And all that happens in a country, where the scope of derivatives market is miserably small. Ukraine has no publications of that kind. Information on financial market and its functioning components is published in a weekly magazine «Business» and «Stock Market» magazine, «The Bulletin of National Bank of Ukraine» magazine plus it is also obtainable from the pertinent Internet web sites.

The global financial markets have the fixed-term financial instruments that reflect the commodity market dynamics. There are the futures and optional contracts covering the commodity futures price indices. Well-known is «The Goldman Sashs Commodity Index» (GSCI), which has 26 greatest futures contracts covering the primary commodities that are the objects of international trade in its database. This index reflects the price volatility of monthly close commodity futures. It is used by institutional investors for portfolio speculations, hedging against inflation and commodity price risks along with interest, currency and futures, covering the stock indices.

It is obvious that the dynamics of the above-mentioned and equivalent indices, as a rule, corresponds the inflation index (27) (Fig. 3). The diagram illustrates a substantial rise of price on primary goods during 1982 – 1998, their sudden drop in 1999 and rise in 2001 and, again, a falling inclination at the beginning of 2002. As a result, a unique tendency of the fixed-term financial instruments, including futures and optional contracts covering the primary goods to serve as the world commodity market indicator, can be observed.

Fig. 3.

The Dynamics of the Futures Contract Price Fluctuation at GSCI (20)



The futures contracts and stock indices are similarly indicated on stock and bond markets. In particular, one of the greatest indicators is 500 New York Stock Exchange (NYSE) shares, which famous rating company «Standard and Poors – S&P 500» counts on (Fig. 4). The above Fig. 3 and 4 illustrate the dynamics of the market stock price index volatility from October 1997 till November 2001 (30).

The diagrams show the obvious falling tendency of American stock price for the last 2 years. That is a sign of USA economic growth decrease, though since 1992, an evident increasing trend of economic growth can be observed. The profitability of debt instruments market during the named period had a decreasing character.

Lately, within the context of the global financial opposition of Europe and USA, a substantial activity of all financial segments can be viewed. The dynamics of the main European Indices change, futures contracts that grew to be extremely popular due to the Euro introduction (Fig. 5) (31), demonstrates it. The London Stock Exchange Index instability was not large to be proved by all the EU members' success. As a result, the only Dow Jones Euro STOXX that appeared in 1998 at EUREX Exchange can fairly compete with other national indices.

Fig. 4.

The Dynamics of Price Fluctuation of the Futures Contracts covering the «S & P 500» Stock Index (30)

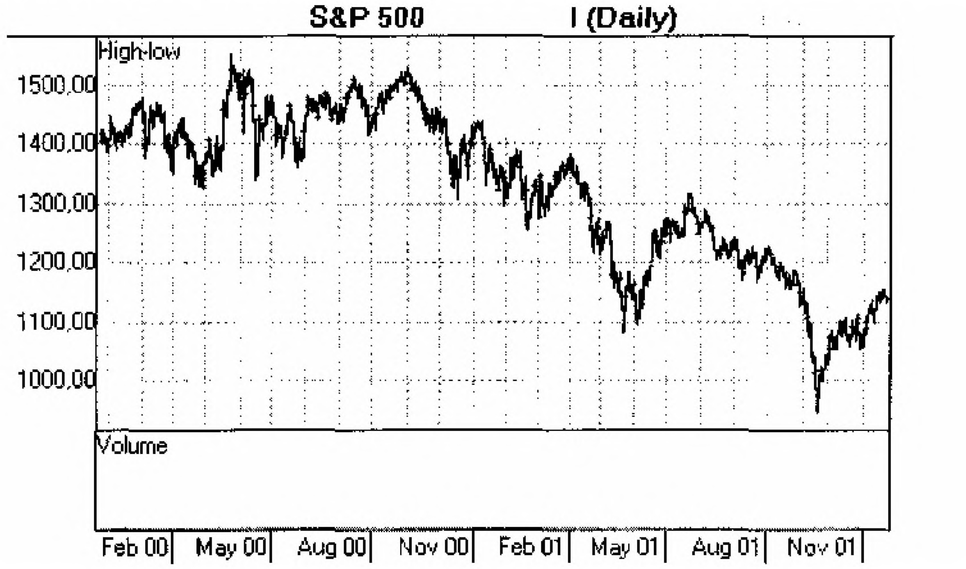
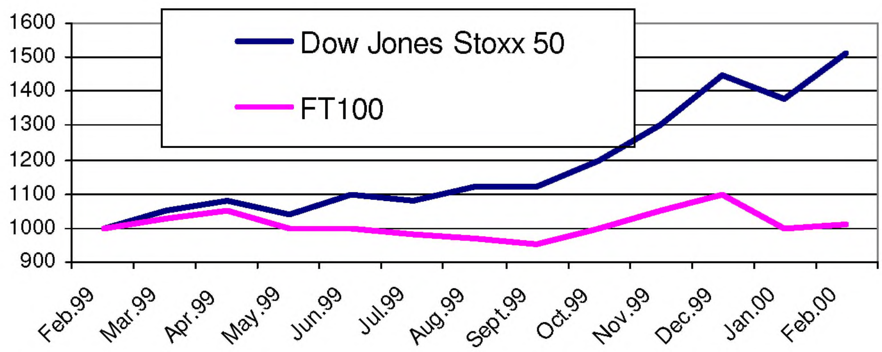


Fig. 5.

The Dynamics of the Price Fluctuation
of the Futures Contracts covering European Indices.



As we can see it, financial market apparently represents the dynamics of commodity and financial real market segments. Its value can hardly be overestimated in this context. Explicitly, it is possible to assert that the process of the fixed-term markets functioning can merely be the object of investigation – it is a special trend of financial science.

We absolutely share D. M. Mykhailov's standpoint (13; 47 – 51). In his paper based on famous foreign researcher J. Christopher's (28) study, Mykhailov puts forward the idea of introduction into the famous financial market segmentation the notion of tertiary market for the fixed-term segment identification apart from the existing primary market that secures financial instruments and secondary, that guarantees their liquidity.

To support the author's view and to innovate it, we suggest our interpretation of financial market. The Fig. 6 schematically shows the model of financial market by differentiating the key subjects (economies, state, enterprises, banks, other financial intermediaries) which interrelate in terms of purchase and sell with financial instruments with the aim of investment as well as investment financing. The diagram illustrates the source of all market participants financing directly and via financial intermediaries on exchange and extra-exchange market segments. The fact that the fixed-term market instruments are, as a rule, out of balance increases their risks significantly, is also emphasized.

Special statistics of their functioning, provided by international financial organizations, proves the feasibility of the fixed-term markets belonging to the tertiary market. For a long period quarterly and monthly reports on fixed-term derivative markets activity of the World Bank, International Monetary Fund, Bank of International Settlements etc, pay less attention to this.

Hence, in the report of Bank of International Settlements (BIS) for the third quarter of 2001, (29) a sizeable article «Derivative Financial Instrument Market» was published. According to their estimates, the growth of exchange futures and options contracts' cost as on October 1, 2001, as compared to the second quarter of this year, was amounting to 139,700 billion dollars or 3%. That was the new record registered recently. We assume it is essential to correct the perception of these reliable statistical data without delay. A number of foreign markets researchers (and, based on their results, some our scientists as well) compare the real financial markets income with the derivative financial markets income. Furthermore, we do not find the received results credible.

Thus, famous scientist Z. O. Lutsyshyn's (10;50) comparison of financial aggregate (lacking the explanation of this notion's essence) with financial «bubbles» that exhaust the real economy is based on contrast with USA's economy only. The latter amounts to 16 trillion dollars with the derivatives amounting to 55 trillion dollars. We consider such comparisons to be senseless as the investment into tertiary market cannot be oriented at the number of contracts made, such as futures and options. When entering into futures and options contracts, only 2 – 10% of real funds and liquid securities as marginal payments or premiums are really invested. Those are the highest risk investments. Marginal payments, invested into futures or optional contracts, can be highly profitable or loss-making several times as much.

K. Penzyn (17), the expert of Moscow Interbank Money Exchange – one of the liquid fixed-term floor at the Russian Exchange Market – has been rather persuasive in signifying this aspect. The only comparison of CME derivative market scopes which in 2000 were amounting to 155 trillion dollars with the NYSE and NASDAQ Stock Market scopes that in 1999 were amounting to 13 trillion dollars, proves the exxageration of tertiary market development.

Nonetheless, K. Penzyn understood perfectly well the essence of futures and options contracts. Therefore, he made his own calculations of the real amounts invested into the optional contracts covering the stock of Chicago Board Options Exchange (CBOE) and American Stock Exchange (ASE). According to his rough estimates and statistical data of the above exchanges, the real options market scope in terms of premiums and payments was amounting to about 530 billion dollars, i.e. only 4% of stock market scopes. So, does it make sense to talk about financial «bubbles»?

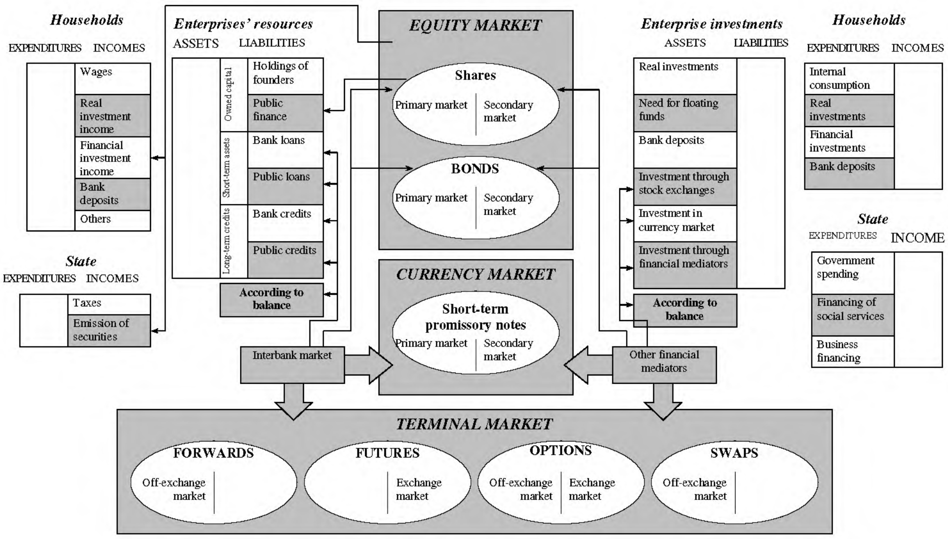
Consequently, the adequate reflection of the tertiary markets scopes is crucial nowadays for the Western economies as well. Moreover, the main indices of the statistical reports of exchanges and other financial institutions on operation of derivative fixed-term financial instruments on the extra-exchange market were once accepted on the basis that the participants discounted the operations according to the balance, and the exchanges did not wish to reveal the information on marginal payments covered by futures contracts and payments covered by optional contracts. As an alternative, the statistics on the amount of the agreements signed and the quantity of opened positions was introduced.

This aspect, to our mind, needs consideration in Ukraine while forming the fixed-term, exchange in particular, futures markets. It is essential to apply obligatory accounting for exchanges on marginal payment plus calculations while performing or settling futures contracts and premiums amount, plus the calculations while options contracts performing. Alongside with the common world market statistics, this one will allow to reveal the share of especially risky investments and the expenses on hedging within the general financial market scope and normally to avoid incorrect configuration of financial market.

The Figures 7 and 8 show the overall world exchange trade volumes in main fixed-term derivative financial instruments which involve the long-term and short-term interest trade contracts, exchange indices contracts, currency contracts for the period from 1997 till the first half of 2001 as well as outside the world economic areas. The above diagrams show a substantial increase in exchange contracting for the first half of 2001 covering mainly the short-term interest rates. That indicates the credit risk increase on the world financial market. The small amount of currency contracts verifies the tendency of currency risks decreasing. This is possible due to introduction of Euro. The analysis of the second diagram shows that Europe holds about the half of the world fixed-term market.

Fig 6.

The volume of futures and options contracts according to their type (following the BIS data as on October 1, 2001), in thousand billion of dollars (30).



What is more, the analysis of Futures Industry Association for the same period shows that the growth of fixed-term contracts at the world exchanges was secured by European exchanges. This growth was typically due to the interest rates contracts. This process designates some monetary weakening on the European and USA money markets (the drop of interest rates) and also changes in financial risks management. Asian exchanges, in Japan in particular, had no opportunity to get back the positions lost during the financial crisis in 1997–1998.

The characteristic feature of the European fixed-term market – is that the contracts related to credit risk management, grow to be more diversified. The liquidity and transparency of basic assets markets as a result of financial instruments standardization is developing. Some geographical indices are replaced at the futures contracts market by the economic segment-oriented indices, the so-called Pan-European indices. That, in turn, enables to perform arbitration of intersectoral operations and inside the every sector as well. At the same time, the indices established according to sectors, are related to the investors' needs that crucially changed the strategy of portfolio management, which is oriented currently at the common European market, mostly sectors, not economies (29).

Fig. 7.

The volume of trade in futures and option contracts according to their types (based on BIS data as on October 1, 2001), in thousand billion of dollars (30).

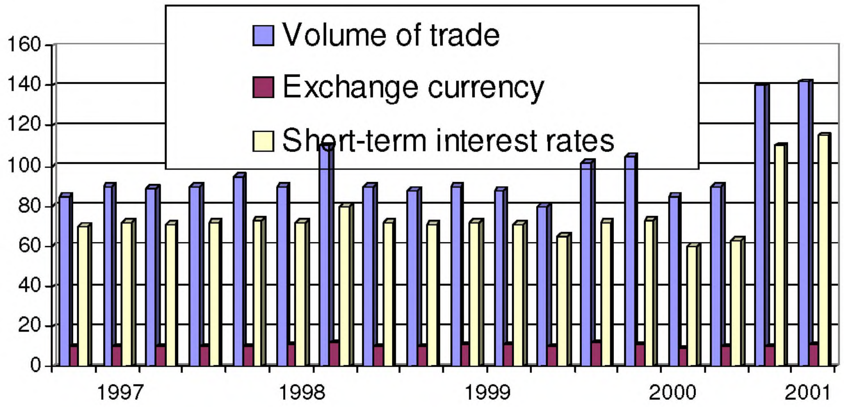


Fig. 8

The volume of the trade in futures and options contracts by economic regions
(Based on BIS data as on October 1, 2001) in thousand billion of dollars (29).

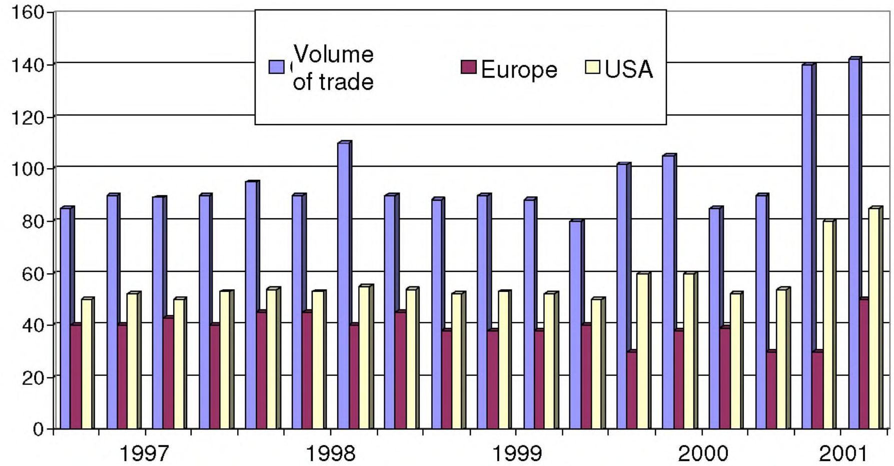
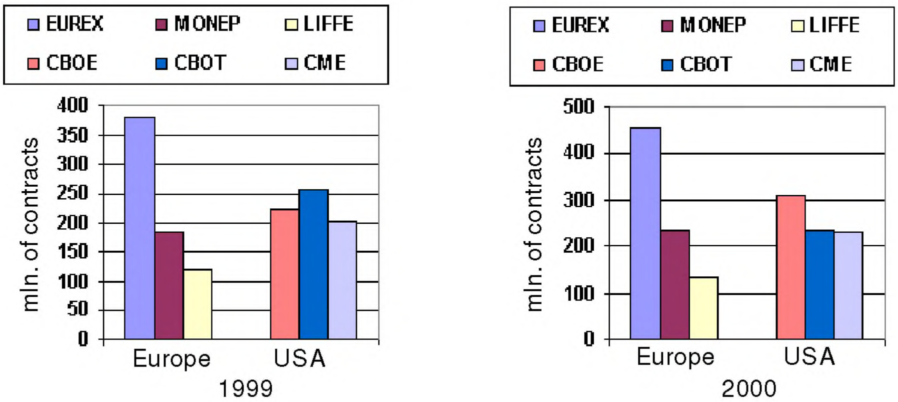


Fig. 9

Comparison of volume of trade in implements of the 3 biggest European and 3 biggest American exchanges in 1999-2000.



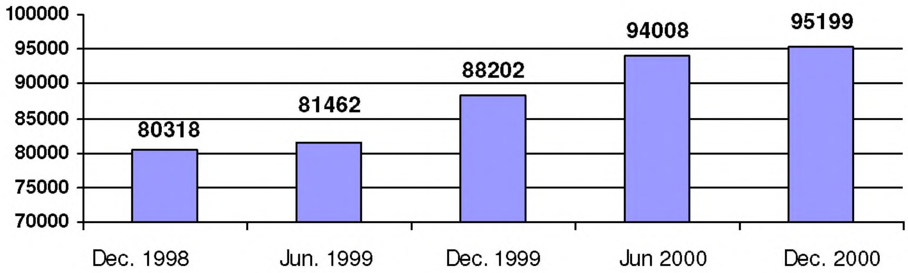
The Fig. 9 shows the exchange trade volumes comparison of the three (of 7) largest American exchanges, Chicago Board of Trade (CBOT), Chicago Mercantile Exchange (CME) and Chicago Board Options Exchange (CBOE) with the three (of 25) largest European fixed-term exchanges, namely London International Futures Exchange (LIFFE), MONEP and EUREX. The Fig. 9 proves the fact that the first place took the European exchanges, which did not exist 10 years at all.

Based on the above we can state that the fixed-term market and its exchange segment has practically changed its structure after 150-year existence (the first forwarding contract was concluded on Chicago Trade Chamber in 1875). Presently, this market has typically fixed-term contracts covering financial assets and exchange indices; the share of trade assets contracts is miserable.

The peculiarity of the world fixed-term market functioning is its rapid development of extra-exchange segment. The Fig. 9 shows the dynamics of extra-exchange fixed-term financial instruments market on the overall commencing from 1998 – the year of financial crisis – till December 2000. It is obvious that at the end of 2000 the total of contracts signed amounts to USD 95199 billion. Furthermore, the interest rates contracts prevail over the commodity assets contracts 95 – 97 times as much.

Fig. 10.

The dynamics of off-exchange market of derivative financial instruments (the total of contracts in billions of USD)*



* The author charged the diagram based on Rapport trimestriel BRI (29;89)

The above analysis verifies that the objectives of speculative character, are of subordinate meaning on the markets. The extensive use of derivatives is for the most part motivated by settling contradiction between market fluctuations cycly nature and the necessity to secure stable financial benefit of commodity and financial market participants.

The Fig. 11 shows the influence of interest and discount rates on the fixed-term contracts market development in USA and Europe. If the discount rates were changed, either – upwards or downwards, the amount of futures contracts with the short-term interest rates on 13-weeks treasury bills, deposit etc., in particular, increases.

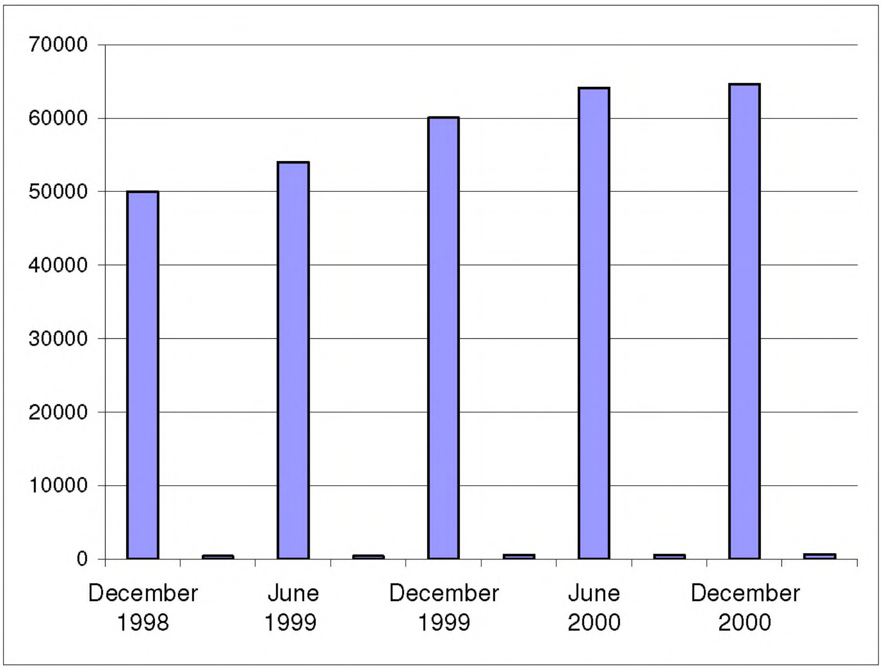
For example, only in the second half of 2001 the amount of futures covering the money market instruments increased, as compared to the first quarter, by 4% and approximated to USD 111,300 billion (12; 30).

The volatility of interest rates, their drop in 2001 especially, in the USA as well as in Europe, caused the decrease in futures contracts amount, covering the USA and Japan bonds and their increase in Europe (Fig. 12).

The revealed tendencies prove the dynamic relation of derivative financial instruments to the real assets market. Thus, at present, new exchange futures contracts covering the swap notes, are realized actively. The volume of futures contracts covering the exchange contract rates in Euro for the period of 2, 5 and 10 yeas merely in the second quarter of 2001 was amounting to USD 99 billion.

Fig. 11

Comparison of off-exchange fixed-term contracts market with interest rates (forwarders, swaps, options) and fixed-term contracts covering goods, gold, etc. (forwards and swaps).*

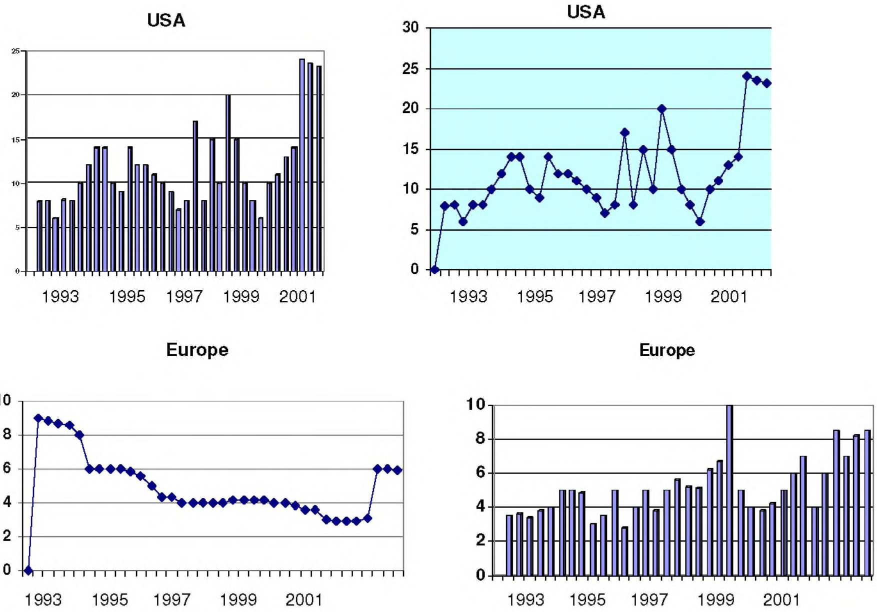


* The author charged the diagram based on Bourse plus (26;89)

Institutional investors felt an urgent need for these contracts. In particular, banks needed them for interest risks hedging while swap contracts performing that are exclusively extra-exchange contracts, thus are extremely risky. In addition, as mentioned above, a considerable progress on futures contracts market was achieved due to the putting the futures, covering the individual stock into trade practice.

Fig. 12.

A comparative dynamics of volumes of fixed-term contracts and interest rates in USA and Europe in 1994–2001.



The above-mentioned made it possible for London International Financial Futures Exchange to amplify the trade volumes that was a straight reaction on Euro implementation as recently the futures covering the bonds of European economies in correspondent currencies were quoted at LIFFE. Nowadays such futures turned out to be needless on the market. They were successfully replaced by the futures contracts covering the European Union bonds (d'Etat EUREX), the volumes of which only for the first quarter of 2001 increased up to 16,600 billion USD, while in 2000 they amounted to 3,300 billion USD.

Simultaneously, in autumn 2001, the Chicago Board of Trade (CBOT) has implemented the futures and options covering the exchange rates of dollar contracts onto Euro contracts for the period of 5 and 10 years. The formation of such contracts simultaneously in Europe and the USA is a sign of their wide opportunities that attract new players to participate at these markets.

The Fig. 13 shows the tendency of rapid growth in the amount of futures and options contracts made, which cover individual shares and stock exchange share indices as well as extra-exchange trade floors for the period of 1995 – 2000 in terms of quantitative parameters and different economic areas. Thus, firstly, along with the increase in the amount of agreements covering the shares, the futures covering the individual bonuses, emerge. Secondly, the volumes of trade in options covering the European shares are approximately equal to the instruments trade volumes on the USA fixed-term market.

In 2001 the quotation of 25 contracts covering the European share of American emitters (Contracts of Universal Stock Futures) at the LIFFE was in progress and 8 contracts covering the famous Holland emittents share were quoted at Euronext.

In December 2000, according to the new Commision's on Futures Trade act, the Shade – Jonson interdiction on practicing individual share futures contracts was abolished. That influenced the competitiveness of the American fixed-term exchanges. The latter now can compete for the clients with the Europen ones.

The need for these instruments can be explained by the influence of several factors such as:

- the share indices instruments (futures and options) can not be used all the time from the risks insurance point;
- the index instruments do not take into account such essential characteristics of the individual shares as the relation between the profitability and the number of small shareholders, pension systems etc.

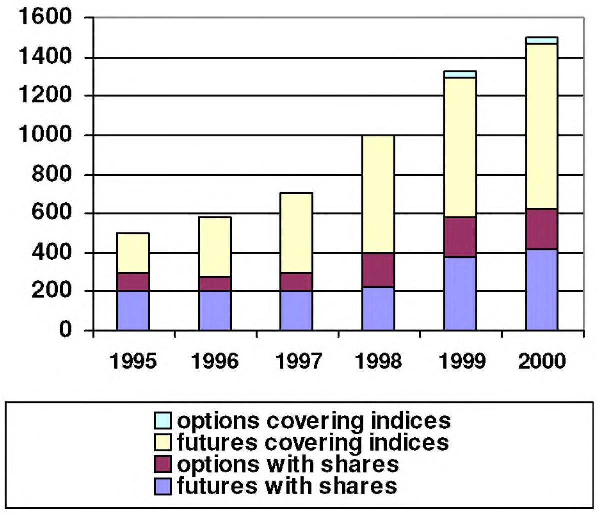
The modification of the derivative financial market instruments' structure and the emergence of brand new products would cause the increase the number of participant. Here belong:

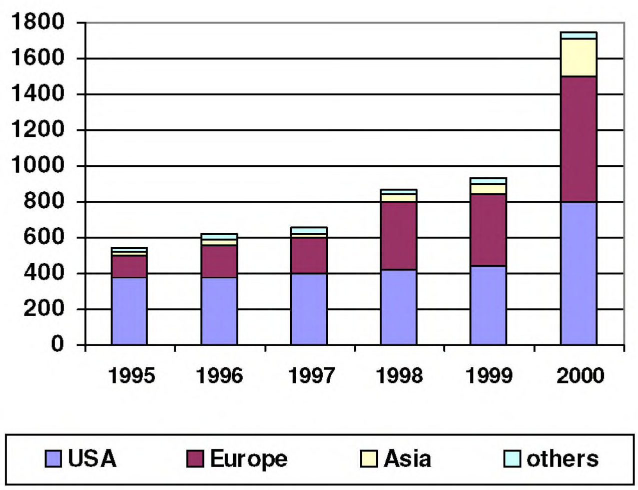
- State and private organizations hedging these investments;
- Banks and banking organizations, corporations and companies that use the derivatives in the system of risk-management and for receiving the benefits due to the high level of financial force;
- Institutional investors that implement the portfolio hedging strategies;
- Institutional funds for additional profits obtaining and hedging;
- Hedge funds and currency market funds for investment into this highly profitable market sector;
- Traders and dealers of the real raw material, capital and currency markets for obtaining information on basic assets prices, taking decisions on hedging and speculating.

Thus, when summing up, we can specify the following tendencies of fixed-term market development as the tertiary segment of the financial market:

Fig. 13.

Volumes of contracts with stock exchange (by types and regions)





- A considerable growth in trade volumes (the amount of contracts and invested marginal payments and bonuses according to the options plus the estimates when agreements are implemented);
- The hedge character of market (about 70% of participants are the hedgers);
- Fundamental transformations in exchange infrastructure (transfer to electronic tenders, consolidation and merging of exchanges, establishment of Pan-European fixed-term trade floor, exchange becoming a non-commercial organization, release of exchange shares on terms of open tenders for shares, unification of clearing systems);
- Prevailing development of an especially risky extra-exchange segment;
- Growing number of participants and significant enlargement of their structure;
- Liberalization and implementation of new approaches to state regulation, delegation of regulative functions to the exchanges;
- Establishment of independent electronic systems with the Internet access for accumulation and sorting of orders, putting into practice electronic trading;
- Concentration of extra-exchange market which is almost non-regulated among several participants;
- Implementation of international regulations, harmonization and unification with assistance of International Organization of State Control;
- Exchange and extra-exchange approximation by means of exchange clearing system;
- Inability of official statistics to reflect the real volume of investments into the fixed-term financial instruments.

Foreign scientists together with participants work intensively on this problem, improving the instruments and infrastructure of future markets and correcting them with the aim to improve their efficient functioning. To our mind, Ukraine needs much to correct the recently adopted conceptions on exchange raw material and stock markets in terms of introduction of sections concerning the methods and directions of highly efficient fixed-term market establishment. It is worthy to examine closely the laws and bills in force, which specify these contracts to harmonize them.

For the fixed-term (futures) market preformed its functioning to accumulate and dissemination of information, it is essential to keep the balance between the access to information reward and its decrease through competition. To author's point of view, now Ukrainian fixed-term components of commodity and financial markets cannot develop successfully since the monopoly on information by several market participants including corruption officials is extremely high. That makes it possible for them, due to the lack of competition, to gain huge profits without forecast distortion of the future prices and rates.

In order to implement crucial transformations of Ukrainian economy, it is essential to take economic decisions together with the political will of people who are in charge for future transformations.

Futures prices are the information open systems with competitive access to information. These very segments should help in big business development legally. It should facilitate the operation with informational confidence concerning future prices and rates and to apply dynamically financial innovations as foreign partners in all powerful corporations and financial institutions practice successfully.

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