

## THE DERIVATIVES TRADING ON UKRAINIAN EXCHANGE: THE PERSPECTIVES OF DEVELOPMENT

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Throughout the world, all categories of investors from financial institutions (juridical entities) to individuals tend to favour derivatives over other financial instruments: stocks, bonds, notes, currency. Not without reason however, as the volume of derivatives trading generally exceeds the turnover in the underlying asset by tenfold. The appeal of the derivatives market has to do with the abundance of opportunities for investors pursuing all sorts of goals in the financial market. In addition, transactions on the futures market offer the potential of a larger return than is usually the case with other forms of investment. This is due not only to the leverage effect, but also to the absence of transaction costs arising when trading on the underlying asset market [1].

In general, a derivative instrument is a contract between two sides that specifies conditions (especially the dates, resulting values of the underlying variables, and notional amounts) under which payments, or payoffs, are to be made between the sides [2].

Derivatives are so popular among the investors because of following reasons:

- 1) the investor can use the financial leverage (or gearing), thus a small movement in the underlying value can cause a large difference in the value of the derivative;

2) the investor has ability to hedge or mitigate risk in the underlying asset, by entering into a derivative contract whose value moves in the opposite direction to their underlying asset and cancels part or all of lose;

3) the investor obtains a possibility to trade the derivatives of the underlying, which qua cannot be traded (e.g., weather derivatives);

4) the investor always has an ability to refuse from his commitments. In this case, his total lose will be measured with the initial margin (or with option premium when he trades options).

The history of the Ukrainian derivatives markets starts on May 27, 2010. It operates on the trading platform provided by RTS (Russian Trading System) with its collateral system.

Currently the Ukrainian Exchange holds trading in futures contracts on the UX Index of local shares and options on UX Index futures contracts, with an aspiration to introduce futures on various underliers (securities, currency, commodities, etc.).

That is, the Ukrainian derivatives market as of today is submitted by only two kinds of derivatives. This fact can be explained by the claim, that the Ukrainian investors haven't become accustomed to derivatives trading yet.

Thus, on the author's opinion, the most exigent task of financial institutions (the investment banks, brokerage companies, stock exchanges) is to popularize this art of investment as a good and perspective alternative to the deposits in the commercial banks. By way of promotion the Ukrainian Exchange offers mock trading in the futures and options markets. Mock trading includes executing virtual futures and options trades in real time mode, in conditions as close as possible to the actual market without running the risk of sustaining financial losses.

Schedule of trading on the derivatives market on Ukrainian Exchange:

Time	Process
10.30 am	Start of the trading session
1.00 pm – 1.03 pm	Intraday clearing session
5.30 pm	End of the trading session Start of the evening clearing session

The underlying asset of Ukrainian derivatives is Ukrainian Equities Index (UX index) – the capitalization weighted index, which shows the performance of the most liquid Ukrainian shares.

The structure of the index basket:

Name of the company	Tiker	Weight in the index
Alchevsk Metallurgical Plant	ALMK	4.84%
Avdiivka Cokery Plant	AVDK	4.10%
Azovstal Iron and Steel Works	AZST	10.90%
Raiffeisen Bank Aval	BAVL	6.12%
Centerenergo	CEEN	15.74%
Donbasenergo	DOEN	4.59%
Enakievo Metallurgical Plant	ENMZ	3.07%
Krukivsky Carriage Works	KVBZ	6.15%
Motor Sich	MSICH	15.92%
Stirol	STIR	3.46%
Stakhanov railway car building works	SVGZ	3.77%
Ukrnafta	UNAF	4.18%
Ukrasotsbank	USCB	4.67%
Ukrtelecom	UTLM	10.84%
Yasynivka Cokery Plant	YASK	1.66%

For competent portfolio management the investor must perform the fundamental and technical analysis, namely consider all the factors that influence the UX Index and company shares of the index basket. For fundamental analysis the investor must monitor the whole information, regarding these assets, which appears in media.

For the technical analysis the investors must use charts to predict the future price direction of the derivatives.

The price chart of the UX Index:



Source: The Ukrainian Exchange [3].

Summing up the whole aforementioned information the next conclusions can be made up:

- the present state of the Ukrainian derivatives market is unsatisfying and thus cannot bring a considerable financial profit to the national economy;
- in the near future the stock market can expect the appearance of the new derivatives, provided by the Ukrainian Exchange;
- the popularity of the derivatives trading presently increases faster than other financial commodities, it can be explained with the aforementioned advantages of these financial instruments;
- the liquidity of the national derivatives increases constantly as well, which is positive for its future development.

### Used sources

1. <http://www.ux.ua/en/>
2. Rubinstein, Mark (2008). Rubinstein on derivatives. Risk Books.
3. <http://www.ux.ua/ru/graph/dynamics/>