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MARKET INSTRUMENTS INSURANCE IN AGRICULTURE

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In the Russian Federation, there are several major stock exchanges on which the drawn lots of different financial instruments. However, we are interested in a very specific segment – the futures market on the Moscow Stock Exchange, where futures and options traded.

In addition to the redistribution and price creation functions, derivatives market and perform the function of hedge risks. Usually, hedging is carried out with the purpose of security price changes risk by entering into transactions on the futures markets. Thus, the hedge may be interested market participants as an opportunity to insure their risks without the involvement of insurance agents, which leads to a direct reduction in costs.

The most common type of hedge – work with futures contracts. At the time, the emergence of futures contracts was due to the need of insurance against changes in commodity prices. But the purpose of hedging is not the removal of the risks and their optimization.

Hedging mechanism lies in balancing the obligations in the cash market (goods, securities or currencies) and opposite in direction, in the futures market. For our region's most interesting, of course, is the commodity grain market. So, how it looks in practice?

Agricultural producer expects a certain grain harvest, but beware decline in cereal prices in the market. Despite the fact that he does not possess the physical grain at the moment, the futures market provides an opportunity to open a short position in futures on corn (sell), and thus hedge against falling prices. In this case, the seller may have only 10-20% of the funds (the so-called GO), which is held for sale. Later, when you close the GO position is returned to the seller or the buyer. Simply put, the manufacturer sells the grain at the time that suits him.

On this slide reflects the reverse situation, when the instruments of the derivatives market already enjoyed by the buyer. If the consumer is assured that he will need in the spring seed, in the fall, he can sign a contract for the delivery of the required his life.

Delivery is carried out on the elevators w \ railway station or seaport in the United States. Here are only the basic popular types, sorted by liquidity. In fact, with an acceptable level of liquidity is still trading around 15 names of varieties. In addition to grain futures also traded on milk, eggs and other products of agriculture.

Black Sea wheat is produced in Russia, Ukraine and Romania. At the moment have zero liquidity. In 2012 it managed to enter a contract with the possibility of delivery in Novorossiysk, Odessa and other cities of the Black Sea, but low trading volume does not allow actively allow to trade this instrument.

The attempt of the American Stock Exchange to create a market of Russian grain trade makes sense. The fact that since 1991 our country has not yet formed a liquid centralized market of raw materials and natural products. In the context of the sale of grain, this fact is directly related to the fact that our producers do not want to work with elevators that serve the first stage on the way to the organization of a centralized market, preferring to store grain and to trade with their own warehouses. Linked to this problem in the first place with the high cost of storage and transportation services. Another problem on the way to the creation of the single market are the differences in the classification of wheat production. Combined with inadequate infrastructure, these factors are fundamentally not allowing you to create a liquid market. It would seem how the absence of a market affects the average agricultural producers? The lack of market leads to the loss of Russian producers and consumers of the price formation process. As a natural result - pricing begins to occur at all outside of the Russian Federation, despite the fact that our country is the largest producer of agricultural products. Lack of a centralized regional market cuts our producers, including the opportunity to hedge their risks of derivative instruments.

Of course, this method of security is not without drawbacks. In particular, the manufacturer rejects additional profits if the price will change in a favorable direction for him. But, on the other hand, the company is able to guarantee to cover all costs and secure profits, if the price is at least 1 day will be on his side, without fear that the end of the harvest, he would be at a loss.

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