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JUSTIFICATION OF THE ESSENCE, FUNCTIONS AND PURPOSE OF GRAIN FUTURE EXCHANGE MARKET OF AGRICULTURAL PRODUCTS

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ABSTRACT

In the article analyzes the development of the domestic stock market. It is substantiated that crop futures are a derivative financial instrument on the stock exchange, which provides for the obligation of its seller or buyer to periodically transfer sums of money to the opposite party depending on changes in the market price of grain, and (or) the obligation delivery of grain on time. It is determined that only under the conditions of joint efforts on the part of the state, the exchange community, participants of the agrarian market that will allow bringing the exchange commodity market closer to civilized bases.

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Introduction. The first definitions of futures first appeared in foreign economic publications, as the history of modern futures (wholesale correspondence, non-cash) trading began in the Midwestern United States in the early 1800's.

A large number of works by both domestic and foreign scientists are devoted to the issue of the functionality and purpose of grain futures on the stock market of agricultural products.

Research purpose. In the article there is a study of the essence, main functions and problems of development of grain futures of the exchange market of agricultural products and coverage of possible prospects and its development.

Research materials and methods. The basis of the research is the following general scientific methods: monographic and dialectical – to collect, systematize and process information in order to conduct research on the functionality and purpose of grain futures in the stock market of agricultural products.

Results. In the scientific literature there are presented of values of the given term, which represent both its interpretation in the fallowness of the same interpretation (Fig. 1.).

On the thought of De Kovno Sh. and Takki K.: «a contract for the sale of crops or buy a single piece of goods for the agreed price for delivery on a special date». Such a rank is given to the transfer of crops, as the buyer and the seller are for sure one, but it does not represent the economic day-to-day business, which has its own price, as it is to be stored on the basis of the supply in order to drink and drink.

Krynychanskyi K.V. considers futures as a standard contract and document.

V.V. Twardowski denies all of the above definitions and believes that: «a futures is not a commodity, not a security, but an electronic record registered by a broker about the bidder's commitment to supply or arrive a certain amount of underlying asset on a certain date in the futures». This opinion is very relevant today, as securities have long ceased to be issued on paper and their purchase and sale takes place in seconds. At the same time, this definition emphasizes the peculiarities

of the registration of futures on the exchange and the obligations of the buyer and seller, but does not reflect the fixation of the price of the asset.

Among the authors are those who believe that futures are securities. However, in our opinion, the assignment of futures to securities is incorrect [2].

Interpretation	Definition
Agreement	A futures contract is an agreement for the future supply of an underlying asset that is entered into on an exchange.
	A futures contract is an agreement to buy or sell an asset at a specified time in the future at a specified price.
	Securities futures are an agreement (obligation), not a choice, as opposed to an option to buy and sell a standard quantity of a certain type of securities on a certain date in the future at a price set in advance at the time of the transaction.
	Futures — special forward futures contracts concluded on exchanges, purchase and sale agreements for goods, gold, currency, and securities at prices in force at the time of the agreement with the delivery of the purchased goods with its payment in the future.
Contract	A futures contract is a contract between two parties to exchange assets or services at a specified time in the future and at a price agreed by the parties at the time of the transaction.
	A futures contract is a standardized forward contract that can be revoked by either party by offsetting the futures contract.
	A futures contract is the same as a forward contract, with one exception. Under a forward contract, the buyer and seller determine the amount of their losses and rewards only on the settlement day, and under futures such settlements are made daily.
Obligation	A futures contract is an obligation to buy or sell a specified quantity of a commodity at an agreed price for delivery on a specified date.
	A futures contract (a contract for the sale of a commodity with its delivery in the future) is defined as «the assignment of a contractual obligation to buy or sell a fixed quantity and variety of a particular commodity on a specified date».
Resolution	A futures contract is a contract concluded at an exchange auction, provides for the obligation of each party to the contract to periodically make payments of money depending on changes in prices (prices) and / or values (values) of the underlying asset and / or the occurrence of circumstances, which are the underlying (underlying) asset.
	Futures or futures contract, is determined by the standard contract for the supply of goods in the future at a price determined by the parties at the conclusion of the contract
Document	A futures contract is a document that defines the rights and obligations of counterparties (buyers, sellers) to receive or transfer property (various assets - including goods, currency, securities) or information indicating the procedure for such receipt or transfer.
Electronic record	A futures is not a commodity, not a security, but an electronic record registered by a broker about the bidders' commitments to supply or receive a certain amount of the underlying asset on a certain date in the future.

Fig. 1. The essence of the concept of «futures».

Source: the author's own research

This definition of the term «futures contract» has a disadvantage, because it includes in addition to futures and options, so it does not fully disclose the economic nature of the financial instrument.

Obviously, most authors do not share the concepts of futures and futures contracts and recognize futures (futures contracts) as a contract that emphasizes the bilateral obligations that arise between its seller and buyer and its legal nature.

Generalizing all the above, we came to the conclusion that in the modern scientific literature and legislation there is no distinction between the terms «futures» and «futures agreement», many authors use them as synonyms, which complicates the development of this tool in our country.

In our opinion, futures have the following properties: belonging to financial exchange instruments, production, have increased risk, urgency, inevitability (binding) for the parties to the transaction. In particular [9]:

1. Belonging to financial instruments. We believe that crop futures should be classified as financial instruments for the following reasons:

First, there are financial relationships when using crop futures. Financial relations mean monetary relations that arise in the process of distribution and redistribution of the value of social product and part of national wealth in connection with the formation of economic entities and the state of monetary income and savings, the formation and use of special-purpose funds. In the process of using futures, funds are redistributed between agricultural producers, speculators and other market participants in futures crops through the exchange [10];

Second, the emergence of crop futures on the market leads to new financial flows in the form of (tax payments, obtaining credit resources and repayment of loans, cargo insurance on the road);

Third, with the introduction of futures for crops are developing various financial market institutions that affect the formation of not only production and marketing infrastructure (elevators, carriers and processors of grain), but also exchange infrastructure (banks, organizations that carry out commodity lending, insurance and leasing companies).

2. Belonging to exchange instruments. Futures are an exchange-traded instrument, their main difference from a forward.

3. Production. The market value of crop futures changes as the price of the underlying asset changes. The essence of production can be interpreted in a narrow sense (production – depending on the price of the underlying asset and other cost characteristics), and in a broad sense (production – depending on the effect). In our opinion, the interpretation of production in the narrow sense significantly limits the conditions of futures pricing. Since their exchange value depends on the effect of their use, benefits, and not only on the market price of the underlying asset (in our case, grain). For this reason, the final financial result of a deal with grain futures is not known in advance and depends on many factors, often unpredictable [10].

4. Increased risk. In our opinion, futures have an increased risk due to the fact that the initial investment in its purchase is much less than the value of the derivative itself. When purchasing futures, you need to pay a guarantee (deposit margin). Usually its value is from 2–15 % of the contract value. Thus, a change in the market value of futures by 1% can lead to a change in the investor's account by 6.7-50%. In addition, futures market participants face a unique uncertainty in their professional activities that cannot be calculated in advance based on available empirical material.

5. Urgency. The division of the futures and spot markets is based on the criterion of urgency, and is called «three working days». If the settlements under the agreement are made within three working days after its conclusion, this agreement refers to the spot market, if later – to the futures market.

Crop futures have the property of urgency due to their economic nature, according to which the two parties agree on the supply of the underlying asset (crops) after a certain period in the future. For example, the term of grain futures on the stock exchange is 12 months.

6. Inevitability (binding) for the parties to the agreement. Futures are mandatory for each participant (as opposed to an option) and take the form of delivery, exchange settlement and offset agreement. Inevitability for the parties to the agreement is explained by the settlement and payment consequences in full (for all elements of the calculation), as well as the obligation to identify financial results for a certain period, which is set by this financial instrument [9].

Having considered the existing definitions and properties of a futures contract, we came to the conclusion that the most complete disclosure of the essence of futures for agricultural crops is the following definition:

Crop futures are a derivative financial instrument on the stock exchange, which provides for the obligation of its seller or buyer to periodically transfer amounts to the other party depending on changes in the market price of grain, and (or) the occurrence of the obligation to supply grain in due time [8].

With this definition, we emphasize the affiliation of futures to exchange-traded derivatives, which more fully reflects its economic nature [7].

By agricultural crops we mean grain futures, which cover a whole group of futures for: wheat, barley, corn, barley, oats, millet, rice, buckwheat, peas and legumes (soybeans, etc.).

In general, the market for crop futures can be defined as a set of economic and financial relations of its participants, on the issue and circulation of futures for crops [6].

In the developed market, futures play their role through functions. Let's highlight the main functions of futures for crops [1]:

— pricing function (crop futures allow you to create a price indicator that market participants focus on). The essence of this function follows from the function of setting the price of the underlying

asset in the future proposed by J.M. Keynes. The information provided by the futures market reduces the transaction costs of obtaining information on the price of grain, as it reflects the expectations of many business units. This will reduce the monopoly of large firms on the ownership of information, allowing it to medium and small entities. This feature is important because it allows futures market participants to set future prices, so they can plan their activities. Thus, futures prices are an indicator of future prices. Currently, for many companies, the indicator of grain prices are futures prices on leading grain exchanges in the United States, France, England;

— hedging function (insurance of risks of agricultural producers). The essence of this function is manifested in the distribution and redistribution of risk of market participants by transferring it to other participants. The risk associated with expected changes in the prices of the underlying asset is eliminated by temporarily opening a position in one market and the opposite position in another, and these markets must be economically interconnected. This activity is called hedging, and participants who use derivative financial instruments to reduce price risk are called hedgers. This feature is the most important in the grain futures market. According to the organizers of the auction, they operate precisely in order to create a financial instrument that allows agricultural producers to hedge the price risk inherent in the grain market;

— incentive function (aimed at increasing the number of concluded agreements by simplifying calculations for them and the development of the grain market) [4];

In order for crop futures to start performing their functions in full, further development of the exchange market for agricultural products is needed.

Currently, the derivatives market is the fastest growing segment of the financial market in the world. The financial market is a system of economic relations, related cash of individuals and legal entities and their redistribution on a commercial basis between different sectors of the economy [3].

Conclusions. Thus, the study defined the concept of grain futures for agricultural products, which fixes the affiliation of this financial instrument to the number of derivatives and discloses its content through the binding relationship of seller and (or) buyer on the periodic transfer of money to the clearing house depending on the change in the market price of grain or upon the occurrence of an obligation to supply grain within the specified period.

In general, the market for crop futures can be defined as a set of economic and financial relations of its participants, on the issue and circulation of futures for crops, refers to commodity exchange derivatives of financial instruments of the first order, forward type with the underlying asset – grain.

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