Chapter 3 Hedging Strategies Using Futures

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Wiley FRM Exam Review Study Guide 2016 Part I Volume 2
McMillan on Options
This chapter comes from Derivative Financial Instruments, written by a renowned corporate financial advisor. This timely guide offers a comprehensive treatment of derivative financial instruments, fully covering bonds, interest swaps, options, futures, Forex, and more. The author explains the strategic use of derivatives, their place in portfolio management, hedging, and the importance of managing risk.

**Recent Applications of Financial Risk Modelling and Portfolio Management**

**Derivatives**

**Project Report**

Master's Thesis from the year 2013 in the subject Business economics - Banking, Stock Exchanges, Insurance, Accounting, grade: 1,7, University of Mannheim, language: English, abstract: The commodity futures contract is an agreement to deliver a specific amount of commodity at a future time. There are usually choices of deliverable grades, delivery locations and delivery dates. Hedging belongs to one of the fundamental functions of futures market. Futures can be used to help producers and buyers protect themselves from price risk arising from many factors. For instance, in crude oil commodities, price risk occurs due to disrupted oil supply as a consequence of political issues, increasing of demand in emerging markets, turnaround in energy policy from the fossil fuel to the solar and efficient energy, etc. By hedging with futures, producers and users can set the prices they will receive or pay within a fixed range. A hedger takes a short position if he/she sells futures contracts while owning the underlying commodity to be delivered; a long position if he/she purchases futures contracts. The commonly known basis is defined as the difference between the futures and spot prices, which is mostly time-varying and mean-reverting. Due to such basis risk, a naïve hedging (equal and opposite) is unlikely to be effective. With the popularity of commodity futures, how to determine and implement the optimal hedging strategy has become an important issue in the field of risk management. Hedging strategies have been intensively studied since the 1960s. One of the most popular approaches to hedging is to quantify risk as variance, known as minimum-variance (MV) hedging. This hedging strategy is based on Markowitz portfolio theory, resting on the result that “a weighted portfolio of two assets will have a variance lower than the weighted average variance of the two individual assets, as long as the two assets are not perfectly and positively correlated.” MV strategy is quite well accepted, however, it ignores the expected return of the hedged portfolio and the risk preference of investors. Other hedging models with different objective functions have been studied intensively in hedging literature. Due to the conceptual simplicity, the value at risk (VaR) and conditional value at risk (CVaR) have been adopted as the hedging risk objective function. []
Managing Volumetric Risks in Electricity Procurement

In today’s financial market, portfolio and risk management are facing an array of challenges. This is due to increasing levels of knowledge and data that are being made available that have caused a multitude of different investment models to be explored and implemented. Professionals and researchers in this field are in need of up-to-date research that analyzes these contemporary models of practice and keeps pace with the advancements being made within financial risk modelling and portfolio control. Recent Applications of Financial Risk Modelling and Portfolio Management is a pivotal reference source that provides vital research on the use of modern data analysis as well as quantitative methods for developing successful portfolio and risk management techniques. While highlighting topics such as credit scoring, investment strategies, and budgeting, this publication explores diverse models for achieving investment goals as well as improving upon traditional financial modelling methods. This book is ideally designed for researchers, financial analysts, executives, practitioners, policymakers, academicians, and students seeking current research on contemporary risk management strategies in the financial sector.

The Challenge of Reigning-in Hedge Funds Through Regulation and the Need to Improve Disclosure Requirements

Superhedging


Introduction to Derivative Financial Instruments, Chapter 3 - Strategic Use of Derivatives

Soybean Storage Hedging Strategies in Argentine Futures Markets

Descriptive statistics and time-series econometric models are used to characterize the behavior of monthly Class III milk prices. From the viewpoint of price risk, groups of months seem to have similar risks. Econometric models can capture the historical behavior of spot prices, but forecasts converge to the marginal distribution of the sample prices in about six months. Futures prices for Class III milk have the expected time-to-maturity effect and converge to the respective monthly distributions of the cash prices at contract maturity. Thus, econometric models and futures quotes provide similar
information about price behavior at contract maturity.

**Economic Consequences and Financial Statement Effects of SFAS No. 133 in Bank Holding Companies**

**Risk Minimization Hedging Methods Using Options**

**Hedging Strategies Utilizing Technical Analysis**

**Futures Markets**

Master's Thesis from the year 2005 in the subject Business economics - Investment and Finance, grade: A- (German: Sehr Gut 1,3), Stellenbosch University, course: Master of Commerce- Business Management, 114 entries in the bibliography, language: English, abstract: This study aims to look at the definition of the group of alternative investments commonly known as 'hedge funds', in order to better understand why regulatory bodies the world over are vehemently working on introducing new legislation and guidelines as a means of maintaining market security and integrity in order to ensure adequate investor protection. This study posits that the two most viable options available to regulatory bodies to ensure effective implementation of these changes are (i) to either further restrict access to hedge funds and thereby curb their 'retailization' and/or (ii) to introduce rigorous levels of disclosure on the part of hedge funds and their intermediaries. It is the objective of this study to establish that for either of these options to be attained, tangible improvement in both the quantity and quality of information disclosure from hedge funds and their intermediaries about their positions, strategies and exposures in a manner that would enable them to continue to provide the market efficiency-enhancing services that they currently offer. After introducing all the key issues that have motivated this resolve, the study looks at the current regulatory environment and the challenges facing regulators such as the varying degrees of banking freedom offered by different states and jurisdictions. Proposed changes to current legislation are also considered across several jurisdictions. The results from the local market field study set the platform for recommendations to be investigated in future studies in order to provide guidelines for the supervision of the hedge fund industry.

**Commercial Bank Financial Management in the Financial-services Industry**
This chapter comes from the book *The Handbook of Structured Finance*, a complete guide to the major issues facing investors in the structured finance market. Comprehensive and accessible, it provides the latest techniques for measuring and managing risk, finding optimum pricing, and taking advantage of leverage and market incompleteness, as well as models for debt and equity modeling.

**Identification and Evaluation of Hedging Strategies that Can be Utilised by the British Potato Industry on the London Potato Futures Market**

**Index to Theses with Abstracts Accepted for Higher Degrees by the Universities of Great Britain and Ireland and the Council for National Academic Awards**

Derivatives makes a special effort throughout the text to explain what lies behind the formal mathematics of pricing and hedging. Questions ranging from ‘how are forward prices determined?’ to ‘why does the Black-Scholes formula have the form it does?’ are answered throughout the text. The authors use verbal and pictorial expositions, and sometimes simple mathematical models, to explain underlying principles before proceeding to formal analysis. Extensive uses of numerical examples for illustrative purposes are used throughout to supplement the intuitive and formal presentations.

**Option Pricing and Investment Strategies**

This book will present a comprehensive view of the risk characteristics, risk-adjusted performances, and risk exposures of various hedge fund indices. It will distinguish itself from other books and journal articles by focusing solely on hedge fund indices and emphasizing tail risk as a predictor of hedge fund index returns. The three chapters in this short book have not been previously published. Presents new insights about the investability and performance measurement of an investor’s final portfolio Uses most recently developed investable hedge fund indexes to revise previous analyses of indexes Focuses on 14 distinct types of hedge fund indices with daily data from January 1994 to December 2011

**Price Risk Management by Dairy Farmers**

**The Handbook of Structured Finance, Chapter 3 - Univariate Credit Risk Pricing**
The definitive, practical guide to sound currency risk management.

**Essays in Option Pricing**

**Foreign Exchange Management in Multinational Firms**

**The Economics of Agricultural Prices**

**An Analysis of Alternative Corn Importing Strategies for Taiwan**

**Hedging with Commodity Futures**

Treasury bills futures market are chosen for the purpose of empirical study.

**Three Essays in Asset Pricing Theory**

**Auditing Derivative Instruments, Hedging Activities, and Investments in Securities**

**Understanding Futures Markets**

Offers strategies in option trading techniques, covering hedging, volatility, and pricing concepts, plus his own options philosophy

**Fundamentals of Futures and options markets**
This comprehensive reference book surveys the broad sweep of futures markets as they exist today. It explains everything from the basic mechanisms of the markets to the factors involved in pricing futures and managing futures portfolios. Current issues in this volatile area are addressed.

**Hedge Funds and Managed Futures**

This first Australasian edition of Hull’s bestselling Fundamentals of Futures and Options Markets was adapted for the Australian market by a local team of respected academics. Important local content distinguishes the Australasian edition from the US edition, including the unique financial instruments commonly traded on the Australian securities and derivatives markets and their surrounding conventions. In addition, the inclusion of Australasian and international business examples makes this text the most relevant and useful resource available to Finance students today. Hull presents an accessible and student-friendly overview of the topic without the use of calculus and is ideal for those with a limited background in mathematics. Packed with numerical examples and accounts of real-life situations, this text effectively guides students through the material while helping them prepare for the working world. For undergraduate and postgraduate courses in derivatives, options and futures, financial engineering, financial mathematics, and risk management.

**Investing in Hedge Funds**

We extend the total risk minimization hedging strategy to the discretely observed path dependent cliquet option where the holdings are approximated by its three state variables. We show how to price the cliquet option under a Merton jump diffusion process and illustrate that total risk minimization using options can lead to smaller total risk than delta hedging.

**Optimal Dynamic Hedging Strategies with Financial Futures Contracts Using Nonlinear Conditional Heteroskedastic Models**

**Managing Foreign Exchange Risk**

"This book has been widely applauded for its breadth and depth of coverage encouraging readers to develop a holistic view of agriculture that cuts across production, marketing, and policy." "Appropriate for upper-division readers having a calculus and microeconomics theory background, economists will also find this book a useful resource when dealing with risk,
storage, and farm policy. Readers will think like economists through the use of real-world observations incorporated within the chapters. They will adapt basic tools learned in courses in economic theory and mathematics as they are gaining experience in using real-world examples to solve problems."--BOOK JACKET.Title Summary field provided by Blackwell North America, Inc. All Rights Reserved

Dynamic Strategies

Strategies for Put and Call Option Trading

For junior-senior/MBA-level courses in Commercial Banking, Commercial Bank Management, Management of Financial Institutions, Financial Institutions and Markets. Established as the market-leader for more than 12 years, this thoroughly revised text describes both the theory and practice of commercial banking from a financial-management perspective. Focusing on the dynamic and rapidly changing financial-services industry, it explores modern financial management decision-making and highlights the importance of adapting to change and creating value as the way for firms to succeed.

Wiley FRM Exam Review Study Guide 2016 Part I Volume 2

McMillan on Options