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Abstract. The volatility and the uncertainty are extended in the global world, being favorised of the vast proportion of the internet and by the IT development. The volatility and the uncertainty are contributing to the appearance of the speculative movements that increase the possibilities of the price overestimation of some financial actives on the new markets. The overestimated and optimistic foretell on the flow of some stock exchange deeds, on the new markets, lead to the collapse of the flow and to the fast migration of the capital on the other markets, reason for which the economy of some countries or big areas could be destroyed. Taking all this into account the development of the operations with derivated financial instruments have offerd for the market participants both the possibility of hedging and a way of speculation. There are advantages and also disadvantages resulted from the derivated use. The derivated market, similar with the financial markets, either creates welfare, or destroies it, because provides a way to transfer the risk. The derivated help the financial markets to become more efficient and also offers better opportunities for the risk management. There is the possibility that the failure of some big transactions with derivates to lead at the appearance of a systemic risk that could spread inside the financial system.

Key words: futures contract; options; hedging; risk; derivated market.

Classification REL: 11B

In the last decades, we can see that the global economy has change thanks to financial high tide integration. The financial high tide has known a developed expansion, both inside of the economies of each country and global.

The collapse of the centralised economies has lead to an attraction for the new markets with high opportunities of investment in this way attractig the privat financial capital in the fast train finance of same extreme unbalance of the countries under way of development.

The volatility and the uncertainty are extended in the global world, being favorised of the vast proportion of the internet and by the IT development. The volatility and the uncertainty are contributing to the appearance of the speculative movements that increase the possibilities of the price supraevaluation of some financial actives on the new markets. The overestimated and optimistic foretell on the flow of some stock exchange deeds, on the new markets, lead to the collapse of the flow and to the fast migration of
Theoretical and Applied Economics

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Taking all this into account the development of the operations with derivated financial instruments have offered for the market participants both the possibility of hedging and a way of speculation.

Lately, the volume and the value of the operations with derivated financial instruments has surpass the operations on sight markets. We well know that before the future markets are always the one sight markets, that operate with a well defined gamut of instruments and financial products. We can see an unprecedent growth of the derivated products (future and option), so that the nowadays financial market resembles with an overturned pyramid. The pyramid top represents what should normally be the basis, that is the support actives (actions, obligations, coins, etc.) and the pyramide basis is represented by the derivated products volume.

This continuous development was and still is accompanied by the growing complexity of the derivated products, explained through the economic variables instability (the interest instalment, the exchange flow, the stock exchange index, etc.). The continuous development has lead to the use of instruments drawn up for a good administration of the risks, that are more and more obvious.

The annual rithm of growing for the derivated products market is stunning. We can see the annual rithm of growing in the next table, the rithm continuing to grow also in this period, being placed between 10% and 40%.

<table>
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<tbody>
<tr>
<td>FUTURES</td>
<td>8,388.9</td>
<td>9,672.5</td>
<td>10,340.4</td>
<td>13,752.9</td>
<td>18,903.7</td>
<td>21,600.3</td>
<td>25,933.0</td>
<td>31,682.3</td>
</tr>
<tr>
<td>- interest instalment</td>
<td>7,966.8</td>
<td>9,265.3</td>
<td>9,958.6</td>
<td>13,123.7</td>
<td>18,164.9</td>
<td>20,708.8</td>
<td>24,476.2</td>
<td>30,165.1</td>
</tr>
<tr>
<td>- currency</td>
<td>610</td>
<td>656</td>
<td>473</td>
<td>799</td>
<td>1035</td>
<td>1076</td>
<td>1614</td>
<td>2019</td>
</tr>
<tr>
<td>- stock exchange index</td>
<td>361.2</td>
<td>341.7</td>
<td>334.5</td>
<td>549.3</td>
<td>635.2</td>
<td>794.0</td>
<td>1,045.3</td>
<td>1,315.3</td>
</tr>
<tr>
<td>OPTIONS</td>
<td>5,922.2</td>
<td>14,125.5</td>
<td>13,540.1</td>
<td>23,034.0</td>
<td>27,686.8</td>
<td>36,186.6</td>
<td>44,759.1</td>
<td>64,983.9</td>
</tr>
<tr>
<td>- interest instalment</td>
<td>4,719.2</td>
<td>12,492.8</td>
<td>11,769.0</td>
<td>20,790.8</td>
<td>24,604.1</td>
<td>31,589.3</td>
<td>38,116.5</td>
<td>55,985.5</td>
</tr>
<tr>
<td>- currency</td>
<td>204</td>
<td>274</td>
<td>266</td>
<td>379</td>
<td>607</td>
<td>661</td>
<td>786</td>
<td>101.2</td>
</tr>
<tr>
<td>- stock exchange index</td>
<td>1,182.5</td>
<td>1,605.2</td>
<td>1,753.8</td>
<td>2,202.4</td>
<td>3,024.0</td>
<td>4,532.3</td>
<td>6,564.0</td>
<td>8,897.2</td>
</tr>
</tbody>
</table>


The growth of the operations volume is due to the opening of new markets, the appearance of new types of agreements but also due to the techniques improvement of the existent transactions. Now, the most important domain is the one of the interest. This domain registers a market share of 95.2% in the case of the future agreements and 86.2% in the case of the options agreement.

Nowadays, these structural situations, that are all over the world, have also a certain impact over the stock exchange market in Romania.

So in Romania the evolution of the derivated financial products market are enroled in the global tendences, confirming the expectations. The 2006 was an excellent year, an historic one for the BMFMS, the transaction value with derivated financial instruments being of 2.77 bilions Euro. The future and the options agreement have known a remarkable growth taking into account the transaction volume size, the number of the transactionated agreements and the number of the opened positiones. These were 6 times bigger than in 2005.

By comparing the evolution of the market of the derivated financial instruments in Romania with Poland and Hungary we can see that in 2005 the volume of the derivated financial instruments that have been transactionated was of 13% of the Warsaw stock exchange volum and 8% of the Budapest stock exchange, in 2006 the volume of the future and options agreements transactionated is comparable among Romania, Poland and Hungary.

So the volume of the operations with derivated financial products has oversurpass any expectation. Although, till now, there is no consensus regarding the way these products are being used and the reasons why the entreprises are using it.

There are advantages and also disadvantages resulted from the derivated use.

The main role of the derivated financial products usage and also the goal of their creation is that of instrument of control and administration of the risk.

The risk that the market prices will be modified before a transaction takes place is extremely high. The derivated products allow the operators to stick the price or the interest instalment at a present level, so that they could assure a protection against the opposite movements of the prices in the future (hedging). Taking into account the stunning volatility of the interest instalment, the exchange instalment and of the prices of other actives lately, the ability to be protect against the market risks with derivated products has become essential for a lot of business.

If the entreprises use the derivated to cover the risks, the actions volatility and their exposition to the market risks could be diminished after the entreprises will start to use...
the derivated. In finance, the sensitivity of an action to the exposion of the market risks is tipically estimated thanks to the hedging coefficient. A study published in Journal Accounting & Economics in 1999 revealed that when the entreprises start to use the derivated, the action volatility diminishes with 5%, the exposion to the interest instalment diminishes with 22% and the exposion to the extern exchanges diminishes also with 11%.

The entreprises are also using the derivated from other reasones, like the speculation. The speculation is different from the hedging because is an activity used not for the protection against the risk. The speculation is an activity of taking a risk in the hope of obtaining a profit because of the price modification. The speculators provide the market with liquidity and this is the reason why the future markets become the places where we can not buy actives because these kind of markets sell the risk. The speculators make the market efficient regarding the prices because they oust the big differences between the buy prices and the sell prices. By taking the risk and bringing liquidity and capital, the speculators contribute to the guarantee of the market stability.

Also, the derivated allow to the individual and institutional investors to obtain incomes that normally they could not obtain without it or could obtain but with high prices. Because of the fact that the entreprises and the individuals can not obtain efficient incomes from the derivated by creating a department, the derivated make the markets more complex, and they also make possible the risk covering.

Another important advantage of the derivated usage is the fact that the derivated make the support active markets to be more efficient. This thing is possible because the derivated markets produce important informations and the investors by thaking into account these informations can trasaction more cheaper.

We can say that the derivated products have the role of primary instruments of foresight, offering enough index about the present and future economic tendencies. These can be a precious aid for the investments on long and short terms.

The conclusion is that by observing the future price we can foresight the market evolution, we can obtain high prices because of the market volatility and in the same time there is the possibility of protection against the risk of growts or diminish, with a reduced cost, that can be negociated at a broker agency.

Another advantage of the derivated usage is the fact that the derivated allow a certain income produced by an active to be decompose in its essential elements and in this way growing the active value. When the cash-flow is generated by an entreprise, the derivated usage to share the risk will lead to the growth of the value obtained by the stockholder and in the same time the value of the entreprise.

On the romanian capital market, although the derivated have been recently launched (1997), the advantages offered by them have been imediately identified and used by the investors.

A special advantage is the transaction on stock system that allows the transaction of certain active on the future market, and paying only a part from its value (10-20%). In fact it is not transactionated the active but its price. This transaction system allows an investor to play with the same money a quantity of actives of 5-6 times higher than on the spot market, the services extremely reduced being a very important advantage.

In the same time, on the future market it is possible to “sell what you don’t have”. Due to the fact that the derivated are not materialised, because they are payment agreements at a certain price an a certain term, an operation on this market can start directly through the agency of a sell. In this way a speculator can achieve profit both on the on the growth and the diminishing of the price, in contrast with the spot market where for now only the shoper has profit.

The both characteristics described earlier, together with the high degree of standardisation and the corelated movement between the prices on the deeds market and the derivated on the deeds market have attracted on the BMFMS market a lot of speculators from the capital market.

The derivated market, similar with the financial markets, either creates welfare or destroies it, because provides a way to transfer the risk. The derivated help the financial markets to become more eficient and also offers better opportunities for the risk management. There is the possibility that the failure of some big transactions with derivates to lead at the appearance of a systemic risk that could spread inside the financial system.

The potential ways in which a derivate could determine the appearance of the systemic risk appear in the situation when the exposion to the credit is focused in the hands of some dealers, if the market is not liquid or if the derivate transmits the impacts on the one market to the other.

The danger of exposure to the credit appears because the dealers usually make derivated transactions among them on the OTC market. Because of the fact that the dealers avoid the organised stock exchange, they don’t pay anymore the guarantees to the Clearing House that assure the agreement payment in case that one of the parts can not pay. Because of the frequent transactions among them, outside of the organised market, the probability of systemic risk appearance grows, and the difficulties of an entreprise can cause wastage and difficulties to other entreprises, the result being the threat of the financial system stability.

The danger of the markets less liquid is represented by the fact that the hedging strategies are not efficient if the actives can not be sell or it can be sell at low prices. This can lead to the incapacity of the enterprises to pay and the
risk transmission to the other enterprises. The danger of the gathered connections among the markets is the one that the failure of an important enterprise from a financial market from all around the world can affect and even can lead to the failure of other enterprises on the globe.

The globalisation makes that the bankruptcy of one of the most important dealers on the financial market to cause liquidity problems on the market and to subjugate the others players from the market to the risk, inclusively the federal banks and the financial system on its whole.

Althought there were some scandals around the derivates, the enterprises go on using the hedgins instruments to protect themselves against the fluctuations of the interest instalment, the price of the marchandise, the steady interest and the price of the deeds. In the last decade of this century, the risks have increased, everybody knowing that the risks have been caused by the coorporations that used the future and the options instruments. These instruments have played an important role in the bankruptcy of the Orange Country, California, in 1994 and the fail of Enron in 2001. With all these evnts it is wrong to say that the hedging instruments were the primary reason of the scandals around the derivates. The reality is that Enron either has unproper used these instruments or these instruments have been deceptrives. If the instruments are used paying enough attention then the products and the hedging strategies can help the corporation to reduce the risks.

For some corporations the derivates are very important. For example the companies from the energetic domain. In 2004 the barrel petroleum cost was 34 dollars and at the end of the year, in October, the cost of it has grown to 55 dollars. If the corporations didn’t use the hedging agreements, the business that depend of this fuel should have managed with a huge growth of the operational prices. The corporations are using the hedging transactions to protect themselves from a series of exposions like the fluctuations in the interest instalment, the marchandise prices, the deeds prices. More than that, in the domain of the business the hedging transactions against the risk of credit have grown, the exposition results from the point of vue of the debt of the other corporation. The companies can make hedging through the agency of a stock exchange, but the future agreements imply an important work because the parts must register the market value of the support deeds and to establish a certain profit or loss in contrast with the start flow. The derivate transactions that take place inside the stock exchange are used firstly by dealers or profesional traders. A lot of companies prefer to use the OTC market. To make a hedging transaction the companies are dealing directly with a dealer.

The instability that characterises the contemporary global economy is synonimous with the risk. With all the cristicism, the fluctuation of the interest instalment exists for more than 20 years, without achieving a possible system of replacement.

If the stability alternative is far, we can not talk about the vanishing of the derivated market. In the absence of a global macro-economical coordination, there is no sense to put the guilt on it. These markets are no more than the result of the mondial economy running, in conditions of risk and incertitude.

References
