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Economic efficiency of methods of imperfect hedging financial options

Sinitsyn, Sergey

Banking investment and finance Program, School of Economics Sciences and Business,
Neapolis University Paphos

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C O N F I D E N T I A L



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Name of Candidate: Sinitsyn Sergey

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Name of first examiner: Professor K.Giannopoulos

Name of second examiner: Dr.George Mountis

TABLE OF CONTENTS

EXECUTIVE SUMMARY	6
ACKNOWLEDGEMENT	7
CHAPTER 1: INTRODUCTION	8
1.1 The value of the derivatives market for the country's economy.	11
1.2. Structure and dynamics of the global derivatives market.	13
1.3. Russian derivatives market.	14
1.3.1. Russian derivatives market formation and problems in the current stage.....	17
CHAPTER 2: THE THEORY OF HEDGING OPTIONS AND HEDGING WITH OPTIONS.	20
2.1 Derivatives market.	20
2.2. History of research hedging of financial options.	21
2.3. Option and option models.	22
2.4. Strategies of hedging with using options contracts.....	23
2.5. The Black–Scholes model.....	30
2.5.1 Volatility.....	33
CHAPTER 3. METHODS OF IMPERFECT HEDGING.	39
3.1. Methods of imperfect hedging of financial options.	39
3. 2. Algorithm of successful hedging.	41
3. 3. Successful hedging variety.....	42
3.3.1. A numerical example.....	43
3.3.2. Conclusion.....	47
3.3.3. International practice of hedging.....	47
3.3.4. The largest foreign markets of futures.....	47
3.3.5. The use of hedging instruments at the foreign trade operations by Forex market participants.....	52
CHAPTER 4: EFFECTIVENESS OF METHODS OF IMPERFECT HEDGING OF FINANCIAL OPTIONS ON RUSSIAN DERIVATIVES MARKET	58
4.1. Empirical testing of methods of imperfect hedging.	64

4.1.1. Perfect delta hedging.....	65
4.1.2. Quantile hedging.....	67
4.1.3. Expected shortfall hedging.....	71
4.1.4. Comparison of the results.....	74
4.2. The Summary of Chapter.....	75
CONCLUSION.....	76
REFERENCES.....	78

Tables

Table 1.1 Global futures and options market structures dynamics.....	12
Table 1.2 Structure and dynamics of the derivatives market of Stock Exchange RTS (FORTS)	13
Table 2.1 Coefficient "The Greeks" in the Black-Scholes model.....	31
Table 2.2 Possible sequence of stock prices.....	34
Table 3.1 The set of successful hedging of a call option depending on the model parameters....	41
Table 3.2 Set of the successful hedge of a call option, depending on the parameters of the model by the example of a put option.....	44
Table 3.3 Trading instruments on a Stock Exchange.....	46
Table 3.4 The sequence of actions of hedging.....	51
Table 3.5 The sequence of actions of hedging (Example 2).....	52
Table 3.6 The sequence of actions of hedging (Example 3).....	54
Table 4.1 Call Deltas and Expires.....	58
Table 4.2 Put Deltas and Expires.....	58
Table 4.3 An example of delta of perfect hedging of shares of Sberbank.....	64
Table 4.4 Example of delta of perfect hedging of USD RUB.....	65
Table 4.5 Procedure of quantile hedging of Sberbank shares.....	67
Table 4.6 Procedure of quantile hedging of a currency pair USD RUB.....	68
Table 4.7 The procedure of the expected shortfall hedging of shares of Sberbank.....	70
Table 4.8 The procedure of the expected shortfall hedging on the example of the currency pair USD RUB.....	71

Figures

Figure 2.1 Financial results for the buyer and seller call and put options dependence.....	23
Figure 2.2 Lognormal distribution.....	33
Figure 3.1 The set of successful hedging.....	40
Figure 3.2 The probability of success and expected success in quantile hedging in condition 1..	42
Figure 3.3 The probability of success and expected success in expected-shortfall hedging in condition 1.....	42
Figure 3.4 The probability of success and expected success in quantile hedging in condition 2..	43
Figure 3.5 The probability of success and expected success in expected-shortfall hedging in condition 2.....	43
Figure 3.6 The probability of success and expected success in quantile hedging and the expected shortfall hedging in condition 3.....	44

Figure 4.1 Option delta.....	56
Figure 4.2 Call delta VS Underlying delta.....	57
Figure 4.3 Put delta VS Underlying price.....	57
Figure 4.4 Scheme of Delta hedging.....	61
Figure 4.5 Stock price dynamic of shares of Sberbank.....	62
Figure 4.6 Dynamics of the Dollar against the Russian Ruble.....	63

Charts

Chart 4.1 Hedging of Sberbank shares with different methods of hedging.....	72
Chart 4.2 Hedging of the currency pair USD RUR with different methods of hedging.....	73

EXECUTIVE SUMMARY

Based on the positive trends of the futures market, it can be concluded that in addition to active speculators in the market, there are hedgers as well. Position protection against the price risk becomes more relevant in the unstable individual segments of the global economy and the crisis in the international markets.

This study deals with the theory of hedging in derivatives market, as well as, the practice of using these operations of financial derivatives in developed countries. The study focuses on the main hedging strategy, which is the basis of complex strategies creation. In this study less attention is paid to more complex strategies, as they include the basic strategy. With knowledge of the technique of basic strategies, the investor will be able to build one that will satisfy all the exact needs.

The aim of this paper is to study the latest techniques of pricing and hedging of financial options, comparing new techniques with traditional techniques, in the financial industry, as well as an analysis of the possibility of imperfect hedging in the Russian derivatives market.

The first chapter is defined relevance of the chosen topic and described the history and development of the derivatives market in Russia.

The second chapter consists of theoretical aspects, it describes the concept of derivatives market. Description of the theory of hedging of financial options and the strategies of hedging using options contracts, The Black-Scholes model and volatility.

The third chapter describes Methods of imperfect hedging of financial options, Algorithm of successful hedging, and successful hedging variety, described the major foreign futures and options markets. Moreover, the third chapter identifies examples of hedging various risks in companies, the use of hedging instruments at the foreign trade operations by Forex market participants.

The fourth chapter (practical) chapter shows the practical aspects of hedging on Sberbank shares and a currency pair USD - RUR example. In this study various sources of information, both Russian and foreign authors, were used. The foundation of this study can be found in John Hull "Options, futures and other derivatives" research and Burenin A. N. "Forwards, futures, options, exotic, and weather derivatives" research, in addition, was used the information of interviews with investment banks and assistance of the project manager (Prof. Kostas Giannopoulos).

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