

## ***New Concepts Concerning Futures Markets and Prices***

By Holbrook Working

Summary by Dan Wouden

Holbrook discusses how new concepts have affected futures markets. I find many of the displaced concepts very interesting e.g., futures serve primarily to facilitate buying and selling, hedging is done solely to avoid or reduce risk, futures prices are highly unreliable, to name a few. Many of these concepts are in part true but not fully. Futures markets exist to facilitate the holding of contracts, not buying or selling with the transfer of ownership. Statistical analysis has shown that the connection between speculating and hedging is not so simple. It has shown that long hedging only offsets some of the inherent risk of short speculation, which in turn makes it so you have to speculate in the short term. Holbrook describes the traditional idea of hedging which is matching one risk with an opposing risk. Different types of hedging. Carrying charge hedging-holding commodity stocks for direct profit from storage. Operational hedging-is done by placing and lifting hedges in quick successions that the spot future price relation can be ignored. This approach largely depends on changes in spot prices and changes in futures prices over a short time interval. Selective hedging-is the hedging of commodity stocks under a practice of hedging or not hedging according to price expectations. This hedging practice is not to avoid risk per se but to avoid losses. Anticipatory hedging-is split into two types. Type one being-purchase contracts in futures required by manufacturers to cover raw material. Type two-sales contracts in futures by producers made in advance, before completion of goods/production. Pure risk avoidance hedging- no explanation necessary.