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### Hedgers and Speculators

#### Hedgers

Many people hedge in some form. The people who hedge against risks are called hedgers.

Sometimes an exporter who has agreed to sell at a particular price needs to be a hedger in futures and options markets. He/she would like to hedge his/her cash position to cover against unfavorable price movements. A trader in the food processing industry would like to buy future contracts to lock in his/her future purchases. In simple words, all industries and trade where future price fluctuations can adversely affect their market and profitability need to lock in the future price of their raw material or products.

Hedgers have the option of locking in the future price of their products and raw materials either by buying a futures contract or an option contract. Options give the purchaser the right, but not the obligation, to buy or sell a particular commodity at a particular price.

Hedging also has a place in portfolio management and mutual fund operations. Buying and selling the required number of stock index futures contracts can hedge the portfolio against excessive risk. The constant exposure to the stock market volatility makes hedging necessary.

Banks, financial institutions and corporations with investments in bonds or debt instruments constantly need hedging instruments, as the value of their bonds fluctuates inversely to interest rates.

Hedging in the foreign exchange market has increased substantially, and foreign currency is an area that is commonly hedged.

#### Speculators

Speculation refers to the deliberate creation of a position for the purpose of generating a profit from the exchange rate fluctuations while accepting the added risk.

Speculators are investors who willingly take price risks to profit from price changes in the underlying asset. Speculators do not have any real position in the futures and options market. Instead, they just have a view or belief about a commodity, currency, stock index, interest rate, etc. that is based on policy announcements by the government, international events or any other news.

Speculators may either be bullish or bearish on the market. Their outlook is said to be bullish when they buy futures or options and wait for the prices to rise in future. It is said to be bearish when they take an opposite view, i.e. they sell futures or options and hope for prices to fall so they can buy the currency and deliver.

Speculators are essential in markets because they provide volume and liquidity. They act as a counter-party to the hedgers who want to hedge their risks. Speculators usually enter into a long or short position. Internationally, speculation in currency trading is quite large. Large fluctuations in currency widen the scope for speculators.