Derivatives Market Players

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- A derivative is an instrument whose value is derived from the value of one or more underlying, which can be commodities, precious metals, currency, bonds, stocks, stocks indices, etc. Four most common examples of derivative instruments are Forwards, Futures, Options and Swaps.

- A forward contract is a customized contract between two parties, where settlement takes place on a specific date in future at a price agreed today.
- Futures are exchange-traded contracts to sell or buy financial instruments or physical commodities for a future delivery at an agreed price. There is an agreement to buy or sell a specified quantity of financial instrument commodity in a designated future month at a price agreed upon by the buyer and seller.

- Options are financial derivatives that in exchange for a premium provide holders with the option (the right but not the obligation) to buy or sell a stock or other underlying asset at a predetermined price up to or on a predetermined date.

- Swaps are derivatives in which two parties agree to swap or exchange one asset for another at one or more future dates. Like options, they can be used to hedge or speculate.
- Credit Default Swaps are a special form of swap akin to an insurance policy on bonds. Despite their ability to increase systemic volatility, they remain largely unregulated.

- MAJOR PLAYERS
- Hedgers
- Hedging is when a person invests in financial markets to reduce the risk of price volatility in exchange markets, i.e., eliminate the risk of future price movements. Derivatives are the most popular instruments in the sphere of hedging. It is because derivatives are effective hedges in correspondence with

- Speculators
- Speculation is the most common market activity that participants of a financial market take part in. It is a risky activity that investors engage in. It involves the purchase of any financial instrument or an asset that an investor speculates to become significantly valuable in the future. Speculation is driven by the motive of potentially earning lucrative profits in the future.

- Arbitrageurs
- Arbitrage is a very common profit-making activity in financial markets that comes into effect by taking advantage of or profiting from the price volatility of the market. Arbitrageurs make a profit from the price difference arising in an investment of a financial instrument such as bonds, stocks, derivatives, etc.

- Margin traders
- In the finance industry, the margin is the collateral deposited by an investor investing in a financial instrument to the counterparty to cover the credit risk associated with the investment.