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COMMODITY DERIVATIVES IN UKRAINE: DEVELOPMENT PROSPECTS

In Ukraine the gross volume of crop production reached 124.6 m tones or 7.3 bln USD by the end of 2016. In particular the production of grains and oil crops totaled 65.9 m tones [1]. Moreover, it is expected that the current level of production in general would remain stable in 2017. [2].

The contribution of total agriculture is projected to be 17% of Ukrainian GDP and the share in export is estimated at 40% [3].

Despite large volumes of production Ukrainian agricultural companies don't have market-oriented ability to hedge their operational risks in Ukraine.

It is in common for farmers or farmland owners to use hard agreements with big agricultural corporations that allow farmers to sell full amount of their product at the future market price but with some discount in behalf of the buyer. This practice empowers farmers to get machinery or fertilizer at the best price and ensure the sale of products in the future. It's stimulating the grain trade market development but it's lowering margins for farmers.

Commodity traders work with forward contracts and major exporters hedge small amounts of grains in Europe or USA.

To say about currency risk the situation is much more complicated. Direct methods to hedge hryvna fluctuations are not available in Ukraine, although the price of grains forms on foreign markets in US dollar or euro.

To sum up, lets define the main financial risks on commodity market in Ukraine:

- Price risk (prices dynamic of commodities depends on the situation on commodity exchanges in Paris (MATIF), London (LIFFE) and Chicago (CBOT).
- Currency risk (Ukrainian hryvna devaluation, currency restrictions by National Bank of Ukraine and legal requirement for exporters to exchange significant part of currency revenue into hryvna).
- Credit risk (counterparty risks, risk of default of one of the parties in trade agreement)

There were a number of attempts to create an exchange market for commodity assets. For example, Ukrainian Exchange launched futures on USDUAH in 2015 and futures on Brent oil in 2016. But the turnover in these derivatives is too low to attract major commodity players.

A positive step to reform the market in the way to make commodity derivatives trading more effective was made by the government after passing the package of bills about regulating markets and derivatives in the late 2016 [4]. Also Head of Agrarian Fund Andriy Radchenko initiated the implementation of wheat futures on domestic exchanges [5].

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