WHAT ARE FUTURES

Trying not to delve into the maze of the specificity of the term **futures,** an exemplary and simple explanation can be made.
The future is a forward and standardized contract with which two distinct parties undertake to exchange a specific asset at a predetermined price and with a deferred settlement at a future date, a term from which it takes its name.

But what contract? Which instrument can be the underlying of a futures contract?
We can mainly mention: a financial instrument so for example an index and of the most famous we can mention the future on the S&P500 or the NASDAQ, or a commodity such as the future on gold or gas.

Their use

We can divide their use into three parts:

1. Hedging

Futures are used for hedging purposes to protect against the risks borne on the market by the asset underlying the futures contract.
Let's take an example: a portfolio of fixed-rate government bonds linked to the euro zone exposed to a risk such as that of rising interest rates. In this case, if I think that the rise in interest rates is against my portfolio, I can sell a futures contract on government bonds in order to reduce the effect of the rate increase by obtaining a profit from the sale of the futures contract. It is often said that many producers of material goods have refresher positions on the same goods.

For example, a lumber producer may have a bearish position on lumber futures as a hedge because if the wood market is doing well, it sells more and prices also rise on the stock exchange, thus losing us but leaving the position open, in case it goes badly.
The wood market the price on the stock exchange falls and he would earn as the futures fall.

2. Arbitrage or manipulation

Futures are widely used for arbitrage purposes when the operator takes advantage of a divergence in the market price of the future with respect to the fair future price. In this case, those who operate in this way mainly control factors such as the market prices of the securities included in the basket of the underlying futures contract, therefore for example the securities in the S&P500, and then check the same market price of the same future.

3. Speculation

Finally, futures are also used to speculate therefore to take certain positions on the underlying asset according to one's expectations.
A practical example could be having a short-term racist view on a given index and then buying futures that has this index as its underlying to allow me to obtain good returns if my view is right and often the most reckless speculators use large leverage on contracts. futures. Both using leverage and speculating on a short term futures can generate large losses as well as large profits, all at a high risk.