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DERIVATIVES IN THE CRYPTO MARKET

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Abstract:
The article deals with topics like crypto assets, crypto market and crypto derivatives, their role in the economy development prospects. The authors emphasized that the crypto market is the most promising among all markets. It is noted that the crypto derivatives market is the fastest growing area in the modern economy. Brief information about the main terms of the sphere is given.

Keywords: Crypto market, derivatives, crypto derivatives, economy, block chain.

Introduction

Let's first find out what a crypto market is. Let's start with the basics. A market is a place where goods are traded, bought and sold. Thus, it is common sense that a crypto market is a marketplace where cryptocurrency will be sold. However, there is a catch here. They have no physical presence. They are only present on your screens and work in the blockchain. Crypto-networks are decentralized, which means that they are not administered and maintained by any central authority, such as the government. Rather, they operate through a network of computers. However, cryptocurrencies can be bought and sold through cryptocurrency exchanges. They can also be stored in "wallets".

Unlike regular currencies, cryptocurrencies prevail only as a shared digital record of ownership stored in a blockchain. When a user wants to send cryptocurrency coins to another user, they send them to their digital wallet. The transaction is not considered final until it is set up and added to the blockchain during the mining process. This process is also used to create new cryptocurrency tokens.

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In this graph we can see the annual capitalization of cryptomarket . The figures confirm that the cryptomarket is the most promising and liquid.

Since we've referred to blockchain so many times, you might have one common question: What exactly is blockchain? Well, do you remember the Lego cubes you used to play with as a kid? How you used to build towers by connecting them? Blockchain does roughly the same thing. Just in this scenario, lego blocks are replaced by data blocks. Blockchain functions by documenting transactions in "blocks," adding new blocks at the beginning of the chain. It is safe to say that cryptocurrency has gone far from its former status for criminals and money launderers. Today there is speculation that cryptocurrency could revolutionize the gaming industry, the media, and even health care.

The cryptocurrency market in its development repeats the development path of classical markets. The difference is that classic financial markets took several decades to evolve, while cryptocurrencies move several times faster. Now, the cryptocurrency derivatives market already offers a wide range of instruments - from simple CFDs to complex options. Crypto derivatives is a generalized name for futures contracts (derivative financial instruments) in which cryptocurrency rates are the underlying asset. Most of such contracts are settlement contracts, i.e., they do not involve real token delivery, but only provide an opportunity to profit from the growth of a coin's exchange rate. This can really interest speculative traders and aggressive investors because of the high volatility of the crypto market.

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The emergence of CFDs in the crypto market as one of the first derivatives is understandable - it is a tool already familiar to traders. For the market to move forward, CFDs need to spread among users and increase liquidity and turnover in the spot market. Cryptocurrency CFD is a standard CFD where digital currencies are the underlying asset: bitcoin, etherium, lightcoin, etc. Cryptocurrency CFDs are closely related to the spot market. A CFD is executed by a broker (the intermediary for each transaction) on the spot market, rather than simply being linked to a price (like a futures contract). Consequently, CFDs have the effect of increasing liquidity in the spot market. That is the difference from futures, which function as a marketplace without an intermediary. The transactions with futures contracts are carried out between the buyers of the contracts and their sellers on the derivatives market itself. Such contracts do not go to the spot market, and the quoted price is usually given in the form of a price index.

CFD (Contract for Difference) - derivative instruments, contracts for price difference. They are an agreement under which the parties must settle depending on the price difference at the time of contract conclusion and execution. If the price rises, the buyer gains profit, the seller pays out. Otherwise, the direction of cash flows is reversed. In fact, such a contract is similar to a spot deal, but may have a stipulated term of performance. Another key difference is the use of leverage, which can be much higher on the futures market than on the spot for unsecured margin transactions.

Futures are a contract for the sale or purchase of an underlying asset in the future at a predetermined price. An example of such a contract is a pre-order of a product, in which the buyer pays a pre-set price, but receives the goods later.

Forwards are practically the same as futures, but this contract is less standardized and is not traded on exchanges. Forwards are traded on over-the-counter (OTC) markets, but this agreement also implies the purchase of the underlying asset in the future at a set price.

Options are a contract that gives the right, but does not oblige, to buy or sell the underlying asset in the future at a predetermined price. An example of options in real life is to ask the seller to hold the goods for a while.

Swaps are a tool that includes two contracts at once. The first contract is

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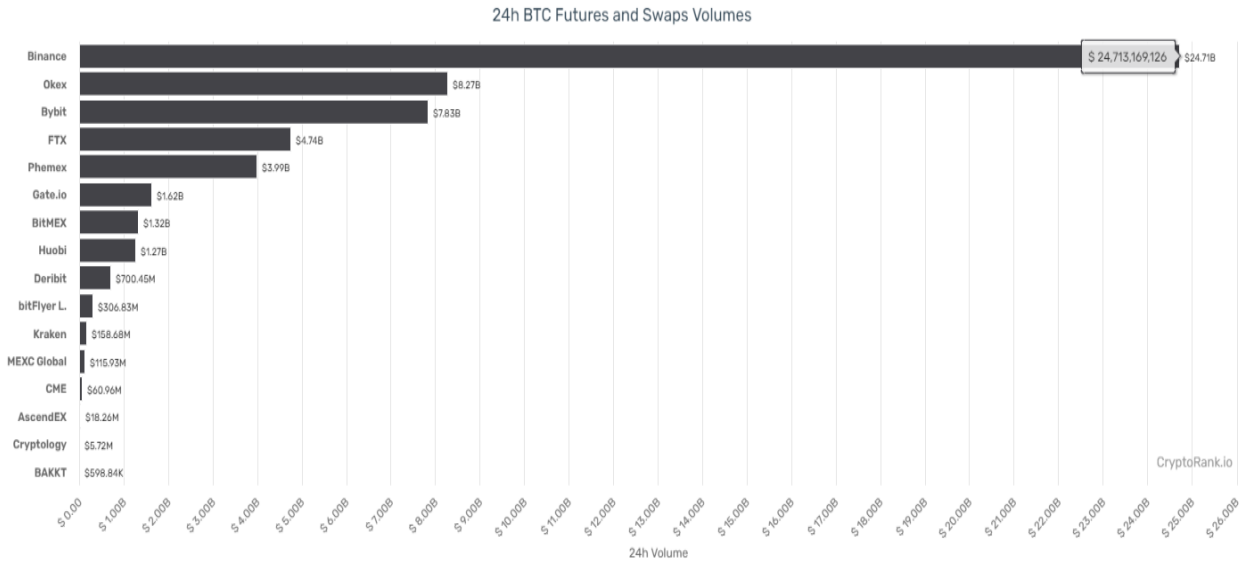
aimed at buying or selling the underlying asset at the time of its conclusion, and the second one indicates
the conditions for the sale or purchase of the underlying asset in the future. Swaps are considered a more complex variant of futures. Example: the purchase of a product from a supplier and the conclusion of an agreement on the supply of the same product to the end user in the future.

Sites where cryptocurrency futures are traded:

Back in 2017. The Chicago Mercantile Exchange (CME) launched trading in standard bitcoin futures. Since February 2021, Ethereum futures are also traded there, and since May, Micro Bitcoin Futures with an underlying asset of 1/10 BTC. This allows you to invest your capital in crypto assets without actually exchanging it for tokens, working with wallets, or worrying about security. Private investors can access them by opening a brokerage account with a foreign broker or a Russian one that provides access to the Chicago Exchange. For example, it is possible to trade bitcoin and ether futures on a Single Account opened at Finam.

Futures contracts are available on almost all major cryptocurrency exchanges (for example, on Binance trades in a separate section Binance Futures). Contracts are concluded on the rates of most listed cryptocurrencies in pairs with fiat currencies or other tokens.



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In this chart we can see statistics of BTC futures and Swaps for 12.04.2022. Many crypto exchanges offer non-standard futures contracts, such as perpetual contracts. They are purely calculative, the investor fixes profit or loss on their own by closing (selling bought or buying sold) the futures at an arbitrary point in time. At the same time such derivatives have all the features of the standard futures - from the deposit of the security to the calculation, charging and writing off the variation margin.

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