



EXPLORING DERIVATIVES IN THE UZBEK STOCK MARKET: FUTURES, OPTIONS, AND BEYOND

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Abstract: *Emerging markets like Uzbekistan are typically in the early stages of developing sophisticated financial instruments like derivatives. The presence and maturity of futures, options, and other derivatives markets can vary greatly and are often tied to broader economic and financial market reforms. Derivatives are financial instruments that allow investors to hedge against risks, speculate on the future direction of markets, and gain access to assets or markets otherwise inaccessible. Among the most common derivatives are futures and options. Initially, specific securities were utilized in property relations within the planned economy (bonds, lottery tickets, bills of exchange in foreign trade). As of right now, it is beneficial to move the economy toward a market economy, build a securities market, restore the types of securities, and call for the emergence of new species.*

Keywords: *future, option, security market, international financial system, stock exchange, securities trading, trading, swap*

Introduction: Derivative instruments derive their value from underlying entities like stocks, bonds, commodities, currencies, interest rates, or indices. Futures are structured agreements executed on exchanges, where parties commit to transact an asset at a specified price and on a set future date. These binding contracts often involve trading commodities, financial instruments, or currencies. Futures serve as a hedge against price movements of an asset, providing stability in pricing for both producers and consumers. For instance, a farmer may utilize a futures contract to secure a sale price for their harvest, thus reducing the risk associated with market price fluctuations. On the other hand, options grant the purchaser the right, but not the obligation, to purchase (via a call option) or sell (via a put option) the underlying asset at a predetermined price until a specific deadline. In contrast to futures, options do not compel the holder to proceed with the purchase or sale¹.

These instruments are employed for either hedging or speculative purposes. For example, an investor may acquire a call option for a stock, anticipating a rise in its price, while also wanting to limit the potential loss should their forecast prove inaccurate. Futures and options both play pivotal roles in the spheres of risk management and investment strategy. Futures provide the

¹ Derivatives: The New Frontier in Finance

<https://www.elibrary.imf.org/display/book/9781557754196/ch023.xml>



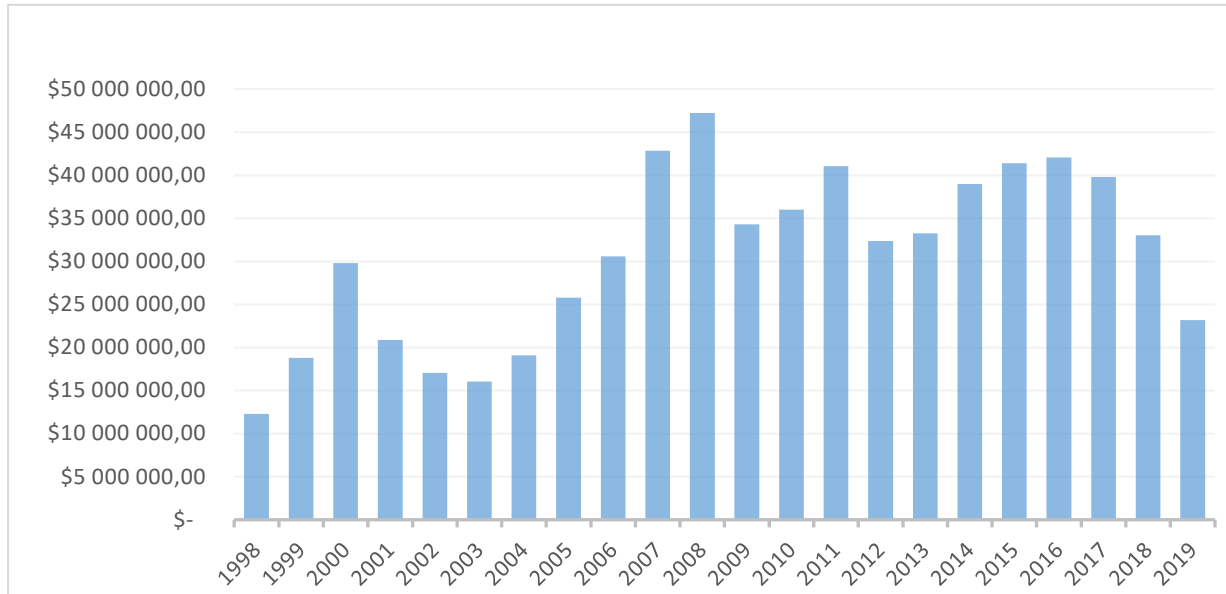
assurance of a fixed price agreement, whereas options offer adaptability and reduced risk exposure for the purchaser.

The stock market affects the economy in several important ways in developed countries. The stock market is a crucial avenue for companies to raise capital by issuing shares. This capital is then used for investment in business expansion, research and development, and other activities that drive economic growth. Their trends are often considered indicators of economic health. A strong market may reflect optimism about economic growth, while a downturn can indicate economic problems. However, it's important to note that the stock market is not always a perfect reflection of the overall economy. Besides It can affect other countries' economies on a global scale. Especially in the case of the U.S. stock market, its performance can influence global economic conditions. In the early 2000s It saw a significant surge in technology stocks, leading to the dot-com bubble. When the bubble burst, it resulted in a substantial market correction, affecting the economy and leading to a recession.

The value of shares traded is the total number of shares traded, both domestic and foreign, multiplied by their respective matching prices. Stock market trends are often considered indicators of economic health. A strong market may reflect optimism about economic growth, while a downturn can indicate economic problems. However, it's important to note that the stock market is not always a perfect reflection of the overall economy.

Many global investors invest in the U.S. market, and its movements can have ripple effects on other markets and economies. The U.S. stock market is a barometer of global economic health. Its performance can influence foreign markets, global investment patterns, and economic policies worldwide. In recent decades there were some fluctuations. From this below chart we can see that stock market in USA has high liquidity and the ease with which large sums can be moved, which is a sign of a healthy and active market.

Figure 1

Stocks traded, total value in millions of US \$²

By comparing the numbers year over year, analysts can look for trends such as steady growth, volatility, or the effects of economic cycles on market activity. For example, a peak in trading value followed by a sharp decline might suggest the bursting of a market bubble, as was seen in the early 2000s with the dot-com bust.

The U.S. stock market is a global marketplace, and these figures also reflect international sentiment towards U.S. equities. An increase in the value traded can indicate strong foreign investment in U.S. companies, while a decrease might suggest a withdrawal of foreign capital.

If we want to forecast next 3 years of volume of the stock market in USA we can use applied econometrics with R by building models. I have built a trend model in order to forecast values for the 2023, 2024 and 2025 years ([here is the link](#)). From the results, I can say that if other parameters are not affected, the volume of stocks traded in USA is predicted to be 26257806 in 2023, 26598940 in 2024 and 25497314 billion dollars in 2025.

Main characteristics of stock exchange in Uzbekistan

Since equities markets are a crucial component of any nation's investment infrastructure, the securities market in Uzbekistan is growing quickly despite its recent inception. The government's medium and mass-scale privatization and securitization of the State Owned Enterprises began in 1993, marking the beginning of the securities market's most active advances. The State Committee of Privatization, the Ministry of Finance, and the Center for Coordination of

² The World Bank statistics

<https://databank.worldbank.org/reports.aspx?source=2&series=CM.MKT.TRAD.CD&country=USA#>

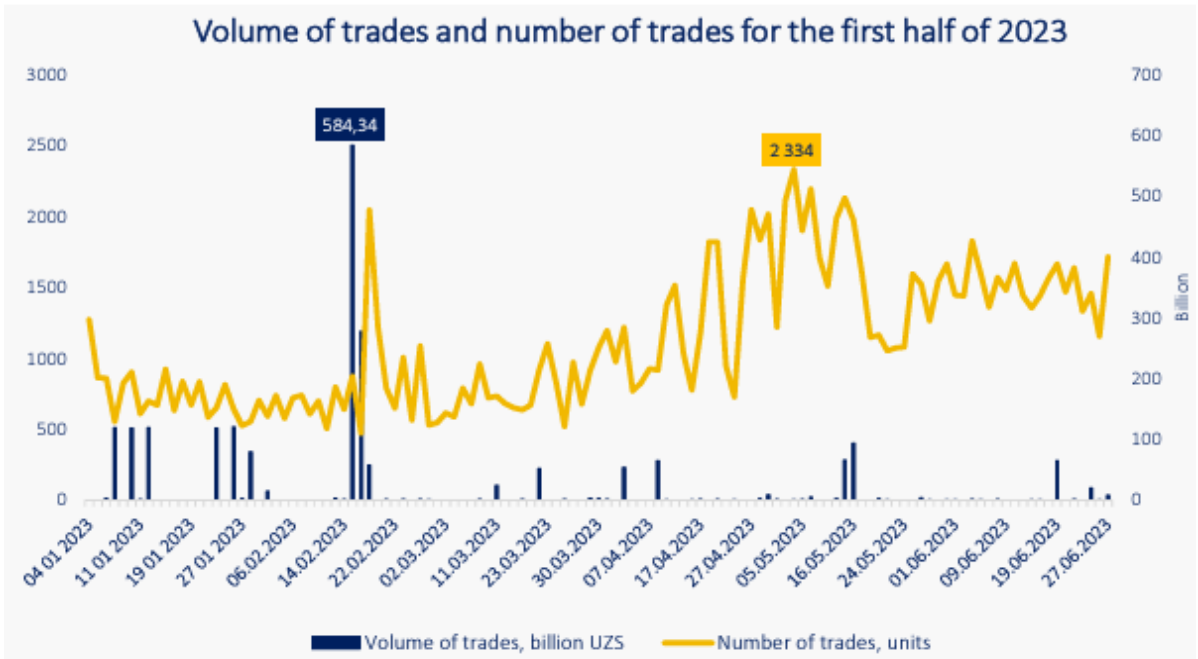
Securities Market are among the government organizations making great efforts to develop Uzbekistan's fledgling equity market.

The Uzbek securities market has quickly evolved to meet contemporary requirements and is moving toward obtaining the characteristics found in several cutting-edge global stock markets. The sole stock exchange operating inside the borders of the Republic of Uzbekistan is the Republican Stock Exchange, or "Toshkent." On April 8, 1994, it was founded. Shares of over 99 firms as well as 10 bond offerings from 4 issuers (companies that issue shares) are traded on it today³.

An organization called the Central Securities Depository offers a centralized system for the maintenance, accounting, and storage of securities as well as other associated services. (The Central Securities Depository operates without requiring a license in compliance with Cabinet of Ministers Resolution No. 263 from May 21, 1999, "On the organization and activities of the Central Securities Depository").

From the graph below, it can be seen that in the first half of 2023, 134 773 trades in the amount of 2.15 trillion UZS were concluded with securities of issuers, which are in the exchange quotation list of the RSE "Toshkent".

Figure 2
The general overview of exchange trades of Uzbekistan Republic⁴.



Illustrated by the blue bars, the volume of trades appears to fluctuate significantly over the period. There's a notable spike early in the period where

³ Investment Promotion Agency under the ministry of investments and foreign trade of Uzbekistan <https://invest.gov.uz/mediacenter/news/how-does-the-stock-exchange-work/>
⁴ Exchange review for the first half of 2023 <https://uzse.uz/analytics/>





the trade volume sharply increases to approximately 584.34 billion UZS. This suggests an event or a series of transactions that caused a much higher trade volume than usually. Following this trend, the volume declines but still shows variability over time. The objects of trades were 13.62 billion units of securities of 94 issuers. The peak of the volume of trades was in mid-February, when the indicator exceeded 584.34 billion UZS for one trading day; the minimum was recorded in mid-March - the volume of trades on March 16 amounted to more than 70.80 million UZS. The highest indicator of the number of concluded trades fell on May 4 with 2 334 trades.

The average daily number of concluded trades on all platforms amounted to 1 114, and the average daily volume amounted to 17.76 billion UZS.

State Regulations of Security market of Uzbekistan

The Capital Market Development Agency (CMDA), which was founded to develop and regulate the securities market and guarantee its stability, transparency, and investor protection, is principally in charge of state regulation of the securities market in Uzbekistan. The regulatory framework is made up of a number of laws and rules, such as but not restricted to:

The primary piece of legislation that establishes the fundamentals for the operation and supervision of the securities industry in Uzbekistan is the Law on the Securities industry. It addresses the issuance and distribution of securities, the rights and responsibilities of market players, professional activity in the securities market, and investor protection measures.

Licensing: Assuring that market players fulfill the prerequisites and follow the law, the CMDA is in charge of licensing stock exchanges, investment institutions, brokers, and dealers.

Disclosure & Transparency: In order to maintain transparency and empower investors to make knowledgeable decisions, issuers of securities are obligated to reveal financial and other relevant information.

Market Surveillance: To stop illicit acts like insider trading and market manipulation as well as other actions that can jeopardize the integrity of the market, the CMDA keeps an eye on market activity.

Investor Protection: Laws are in place to safeguard investors' rights, and they include provisions for recompense in the event that those rights are violated.

Corporate Governance: To boost investor trust and guarantee the smooth operation of the securities market, the CMDA encourages public companies to adopt sound corporate governance procedures.

International Cooperation: In order to conform to international norms and draw in foreign investment, Uzbekistan's securities market regulators may collaborate with regional and international organizations.



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The President of the Republic of Uzbekistan appoints the authorized state body (henceforth referred to as the "Authorized Body") to regulate the securities market in compliance with Article 55 of the ZRU-163. The Agency for the Development of the Capital Market was formerly known as the Center for the Coordination and Development of the Securities Market under the State Competition Committee of the Republic of Uzbekistan. However, on May 1, 2021, this agency was abolished and its functions were transferred to the Ministry of Finance of the Republic of Uzbekistan, in accordance with a Decree issued by the President of the Republic of Uzbekistan on April 13, 2021, No. PP-5073⁵.

Conclusion: Uzbekistan's stock market may have historically been characterized by limited investment instruments, with a primary focus on stocks and bonds. One significant milestone in the development of Uzbekistan's financial markets has been the introduction and growth of futures and options as major derivatives. They can also increase market liquidity, making it easier for investors to enter and exit positions, which is crucial for a vibrant market. By hedging against price volatility and other financial risks, these instruments can give investors and businesses useful tools for risk management.

Such derivatives' existence also suggests that the financial environment is becoming more diversified and that there are more advanced investing options available. But the survival of these financial products as well as the securities market as a whole hinges on the ongoing changes that improve legislative frameworks, guarantee stringent regulatory monitoring, and promote investor protection and education. Uzbekistan's dedication to enhancing its financial

⁵ Контроль в сфере М&А в Узбекистане <https://azizovpartners.uz/ru/2020/09/17/2301/>



infrastructure is anticipated to draw more international investment and improve the nation's economic prospects as it continues to integrate with the global economy.

Besides, there is a potential knowledge gap among investors and financial professionals in Uzbekistan regarding derivatives trading, necessitating education and training programs. So It is advisable to conduct ongoing education and awareness programs for both market participants and regulators can ensure informed and responsible trading. And also It is crucial to establish clear regulations and a legal framework that protects investors while promoting market growth. Understanding global best practices and adapting them to the local context can be vital for the successful integration of these instruments. In consequence, market could see the introduction of more complex derivatives and structured financial products as it matures.

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