Goldman Sachs & Co

Equities Derivatives Strategy

Speculators and Hedgers in Futures Markets

Investors believe that positions held in different securities contain important information about the market. That's why understanding the relationship between positions and market performance is very interesting and important task.

In this project we would like to focus on flows in futures markets. A distinct feature of this market makes the analysis particularly attractive. The CFTC (Commodity Futures Trading Commission) requires all traders to identify themselves as hedgers or speculators. For example, if a trader is protecting her position, she can be called a hedger. On the contrary if a trader is making a bet on a significant price increase in the nearest future, she is a speculator. Of course there are other situations where traders can be classified as hedgers or speculators. Every trader chooses for herself what category she falls into.

We have positions from both hedgers and speculators available for a number of futures contracts (S&P 500, commodities etc.).

We pursue several goals here. We would like to see if speculators speculate (in other words we would like to look at the relationship between these positions and the returns on the underlying securities). Is there any predictability in these positions? What is the relationship among positions in different futures contracts? Can we identify common factors for these positions? Some other interesting issues related to speculators' positions can be considered as well.

This project requires basic knowledge of excel and regression analysis.