Derivative Instruments for
Wine Price Risk Management and Trading
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Variations in wine prices can be prominent and have widespread economic and financial implications. The existing risk management practices resort mostly to ineffective or costly approaches which include, for example, diversification, insurance policies, forward contracts, cash reserves, underleverage and wine reserves. In the present paper we propose the development of derivatives contracts on standardized baskets of wine in order to address the risk management and trading needs of market participants. In our empirical application, we use several popular continuous time processes in order to approximate the dynamics of the Liv-ex 100 Fine Wine Index. On the basis of our results we build equilibrium pricing models for wine futures, swaps and options. Practical examples of hedging and trading strategies are discussed.