

The Impact of Derivatives Hedging on the Stock Market: Evidence from Taiwan's Covered Warrants Market

蔡維哲
中山大學財務管理學系

Abstract

We examine the impact of derivatives hedging on the spot market using accurate hedge ratios of covered warrants traded in the Taiwan Stock Exchange (TWSE). Results present significant positive abnormal returns and trading volumes before the announcement of a warrant's issuance, and the effect is stronger when the hedging demand is larger. Moreover, a significantly positive relationship exists between stock return volatility and the price elasticity of hedging demand. Finally, we observe a significantly negative price effect upon the underlying stock after a call warrant has expired in-the-money due to the liquidation of hedging portfolios.