CURRENT MARKET SCENARIO OF CURRENCY MARKET IN AHMEDABAD CITY

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Abstract: *Derivatives markets are one of the most important classes of financial instruments that are central to today's financial and trade markets. They offer various types of risk protection and allow innovative investment strategies. In India the derivatives market was small and domestic just a few years back. Since then it has grown impressively and had reached to a sizable position. The Currency derivatives market is growing at a fast pace and providing all different investing horizons to the investors like Hedging, Speculation, Arbitrage, Investment. However, larger traders still dealt in the OTC even when the exchange traded currency future was available in markets. The research found that lack of knowledge of derivative especially currency future, did not gain its pace. If the currency future is encouraged, the exchange between USD-INR markets in India is huge and these exchange traded contract will give more awareness in market and attract the investors.*

Key Words: *Forex Markets, Derivatives, Currency Trading, Hedging*

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INTRODUCTION

A Forex market is a market that facilitates exchange of currencies. The world is emerging as a global economy because of flow of goods, services and capital. For each transaction of goods and services there is a corresponding currency transaction, which forms a part of an international network of payments. The increase in world trade and the lowering of capital controls have led to tremendous growth in the foreign exchange market over the years. It offers unparalleled personal and financial freedom to make money as well as lose it in no time. It is described as "the fairest market on earth" for it is so large that no one player, not even large government can completely control its directions. The Indian forex market is in its evolving stage, the market is described as thin with few players and low volumes unlike the global scenario. The main reason for low volumes is the non convertibility of rupee on capital account

WHAT IS SPECIAL ABOUT THE FOREX MARKET?

The forex market is special in a number of ways. We cannot designate any physical location where forex traders get together to exchange currencies. Rather, traders are located in offices of major commercial banks around the world and communicate using computer terminals, telephones and other information channels. The international scope of the forex market implies the absence of any central regulatory authority. Instead the forex market provides an example of private regulation, where market participants agree on a common set of rules governing transactions and their settlement. Hence, the forex market is certainly not a chaotic realm of lawlessness. In fact ethical and professional standards are essential in an economic environment in which a single verbal agreement on a telephone can commit millions of dollars or Euros. The forex market differs from other financial markets in a number of respects. First, it is by far the world's largest financial market in terms of transaction volume. The daily transaction volume in all currencies is estimated to amount to $3.98 trillion a day. This is gigantic even in comparison to a very active equity market like the New York Stock Exchange, which reaches an average daily volume of approximately US$ 296 billion a day. Secondly, the forex market is also a market with extraordinarily low transaction costs. A common measure to express transaction costs is to calculate quoted spreads as the price difference between a buy (ask) and a sell (bid) order for a currency rate relative to the mid-price. Such quoted spreads in the forex inter-bank market can become as

low as 0.5 to 1.5 basis points (a basis point is 1% of 1%, i.e. 0.0001) for the most liquid currency pairs. Quoted spreads in equity markets tend to be 50 times larger even for the most liquid stocks. These are some of the reasons why the forex market is known as the fairest market of the world.

THE HISTORY OF THE FOREX

- **Gold Standard System:**

The creation of the gold standard monetary system in 1875 marks one of the most important events in the history of the Forex market. Before the gold standard was implemented, countries would commonly use gold and silver as means of international payment. The main issue with using gold and silver for payment is that their value is affected by external supply and demand. For example, the discovery of a new gold mine would drive gold prices down.

The underlying idea behind the gold standard was that governments guaranteed the conversion of currency into a specific amount of gold, and vice versa. In other words, a currency would be backed by gold. Obviously, governments needed a fairly substantial gold reserve in order to meet the demand for exchanges. During the late nineteenth century, all of the major economic countries had defined an amount of currency to an ounce of gold. Over time, the difference in price of an ounce of gold between two currencies became the exchange rate for those two currencies. This represented the first standardized means of currency exchange in history.

The gold standard eventually broke down during the beginning of World War I. Due to the political tension with Germany, the major European powers felt a need to complete large military projects. The financial burden of these projects was so substantial that there was not enough gold at the time to exchange for all the excess currency that the governments were printing off. Although the gold standard would make a small comeback during the inter-war years, most countries had dropped it again by the onset of World War II.

- **Bretton Woods System**

Before the end of World War II, the Allied nations believed that there would be a need to set up a monetary system in order to fill the void that was left behind when the gold standard system was abandoned. In July 1944, more than 700 representatives from the Allies convened at Bretton Woods, New Hampshire, to deliberate over what would be called

the Bretton Woods system of international monetary management. To simplify, Bretton Woods led to the formation of the following:

1. A method of fixed exchange rates;
2. The U.S. dollar replacing the gold standard to become a primary reserve currency; and
3. The creation of three international agencies to oversee economic activity: the International Monetary Fund (IMF), International Bank for Reconstruction and Development, and the General Agreement on Tariffs and Trade (GATT).

One of the main features of Bretton Woods is that the U.S. dollar replaced gold as the main standard of convertibility for the world's currencies; and furthermore, the U.S. dollar became the only currency that would be backed by gold. (This turned out to be the primary reason that Bretton Woods eventually failed.)

CURRENT EXCHANGE SYSTEM

After the Bretton Woods system broke down, the world finally accepted the use of floating foreign exchange rates during the Jamaica agreement of 1976. This meant that the use of the gold standard would be permanently abolished. However, this is not to say that governments adopted a pure free-floating exchange rate system. Most governments employ one of the following three exchange rate systems that are still used today:

o Dollarization;

o Pegged rate; and

o Managed floating rate.

- **Dollarization**

This event occurs when a country decides not to issue its own currency and adopts a foreign currency as its national currency. Although dollarization usually enables a country to be seen as a more stable place for investment, the drawback is that the country's central bank can no longer print money or make any sort of monetary policy. An example of dollarization is El Salvador's use of the U.S. dollar.

- **Pegged Rates**

Pegging occurs when one country directly fixes its exchange rate to a foreign currency so that the country will have somewhat more stability than a normal float. More specifically, pegging allows a country's currency to be exchanged at a fixed rate with a single or a specific

basket of foreign currencies. The currency will only fluctuate when the pegged currencies change.

- **Managed Floating Rates**

This type of system is created when a currency's exchange rate is allowed to freely change in value subject to the market forces of supply and demand. However, the government or central bank may intervene to stabilize extreme fluctuations in exchange rates. For example, if a country's currency is depreciating far beyond an acceptable level, the government can raise short-term interest rates. Raising rates should cause the currency to appreciate slightly; but understand that this is a very simplified example. Central banks typically employ a number of tools to manage currency.

PLAYERS IN THE FOREX MARKET

Diverse a commodity market, where all participants have access to the same price levels, the forex market is separated into levels of access. At the peak is the interbank industry, which is made up of the most prominent investment funds banking firms. Inside the interbank marketplace, gaps, which are the deviation between the bidding and ask cost, are razor sharp and normally unavailable, and not known to participants outside the inner circle. As you go down the degrees of access, the difference between the bidding and ask costs extends. This is due to mass. If a swing trader can guarantee immense amounts of dealings for huge amounts, they can require a more minor difference between the bidding and ask price, which is named to as a better spreading. The top tier interbank industry accounts for 53% of all transactions. When that there are usually more minor investment banks, followed by heavy multinational corporations (which want to hedge risk and pay employees in diverse countries), big hedge funds, and potentially a few of the retail forex market makers. Major Pension funds, insurance policy companies, mutual funds, and other institutional investors have wagered an increasingly significant role in financial markets in general, and in FX markets in particular, since the early 2000s.

- **Central Banks**

National primal banks play a please note role in the foreign exchange marketplaces. They seek to check the revenue supply, inflation, and/or interest rates and often have prescribed or unofficial target values for their currencies. They can use their oftentimes substantial foreign exchange reserves to stabilize the marketplace. The strength of primal banking

institute stabilizing hypothesis is in question because primal banking firms don't go bankrupt if they make huge losses, like more traders would, and there are no convincing grounds to believe that they do make a profits dealing.

Key banking institutes do not universally accomplish their objectives, however. The merged resources of the industry can easily sweep over whatever central banking concern. Some scenarios of this nature were seen in the 1992/93 ERM collapse, George Soros bet on bank of England, and in more recent times in Southeast Asia.

- **Banking Institutions**

The interbank market caters for each the majority of commercial turnover and large numbers of speculative dealing each day. A prominent bank may swap billions of dollars every day. Some of this swapping is undertaken on behalf of customers, but great deal is conducted by proprietary desks, swapping for the banking firms own account.

Until lately, foreign exchange agents did heavy amounts of business, helping interbank dealing and coupling anonymous counterparts for small scale fees. Today, however, great deal of this business has moved on to more efficient electronic systems, such as Bloomberg, EBS, Reuters Dealing 3000, the Chicago Mercantile Exchange and Trade Book(R). The professional squawk box lets dealers hear in on ongoing interbank dealing and is heard in almost all dealing rooms, however turnover is perceptibly littler than just two or three years ago.

1. **Investment Funds Management Firms**

Investing management firms (who occasionally manage vast accounts on behalf of clients such as pension funds and endowments) utilize the foreign exchange industry to facilitate dealings in foreign securities. For instance, an investment funds manager with a worldwide equity portfolio will require choosing and dealing foreign currencies in the area market in order to compensate for purchases of alien stocks. Because the forex trading transactions are secondary to the factor investing decision, they are not seen as speculative or calculated at profit maximization.

Some investing management houses also have more speculative specialist currency overlay operations, which manage client's currency exposures with the aim of generating profits as well as limiting risk. Whilst the figure of this type of specialist firms is quite microscopic,

many have a big value of assets under management (AUM), and hence can generate immense trades.

2. Commercial Corporations

An important side of this marketplace comes from the financial activities of corporations seeking extraneous exchange to pay for goods or services. Commercial corporations much business deal fairly pocket size amounts likened to those of banks or speculators, and their trades frequently have little short term impact on market merits. However, business deal flows can be and please note ingredient in the semi permanent direction of a currency's exchange rate. A few transnational corporations can have an unpredictable impact when very enormous positions could be reported due to exposures that want to be not widely known by more marketplace players.

3. Retail Forex Brokers

Retail foreign currency exchange agents or industry makers address a minute divide of the sum volume of the alien exchange marketplace. Based on data from CNN, one retail professional estimates retail volume at $2550 billion every day, which is around 2% of the whole industry

DERIVATIVE PRODUCTS

Derivative contracts have several variants. The most common variants are forwards, futures, options and swaps.

1) Forwards: A forward contract is a customized contract between two parties,   where settlement takes place on a specific date in the future at today's pre-agreed price.

2) Futures: A futures contract is an agreement between two parties to buy or sell an asset at a certain time in the future at a certain price. Futures contracts are special types of forward contracts in the sense that they are standardized and are generally traded on an exchange.

3) Options: Options are of two types - calls and puts. Calls give the buyer the right but not the obligation to buy a given quantity of the underlying asset, at a given price on or before a given future date. Puts give the buyer the right, but not the obligation to sell a given quantity of the underlying asset at a given price on or before a given date.

Different Option Structures

- *Plain Vanilla*

- *Ratio Strip*

- *Seagull*

4) Warrants: Options generally have tenors of up to one year; the majority of options traded on options exchanges have a maximum maturity of nine months. Longer-dated options are called warrants and are generally traded over-the-counter (OTC).

5) LEAPS: The acronym LEAPS means Long Term Equity Anticipation Securities. These are options having a maturity of up to three years.

6) Baskets: Basket options are options on portfolios of underlying assets. The underlying asset is usually a moving average of a basket of assets. Equity index option is a form of basket option.

7) Swaps: Swaps are agreements between two parties to exchange cash flows in the future according to a prearranged formula. They can be regarded as portfolios of forward contracts. The two commonly used swaps are:

- *Interest rate swaps*
- *Currency swaps*

8) Swaptions: Swaptions are options to buy or sell a swap that will become operative at the expiry of the options. Thus a swaption is an option on a forward swap. Rather than have calls and puts, the Swaptions market has receiver Swaptions and payer Swaptions. A receiver swaption is an option to receive fixed and pay floating. A payer swaption is an option to pay fixed and receive floating.

REVIEW OF LITERATURE

Hlupic Vlatka, Paul Walker and Zahir Irani (Hlupic, Walker, & Irani, 1998) in their research paper 'Predicting movements in foreign currency rates using simulation modeling' investigated whether and how simulation modeling can be used effectively to assist in predicting how foreign exchange rates will move when something occurs which either increases or decreases its value in relation to other currencies. These factors incorporate specific functions of the economy under the broad headings of money markets, economic, employment, base rates, intervention, political, gilts, and other. After an understanding of the reasons why currency rates move, the paper emphasizes on the structure of changes which would move the currency exchange rates up or down, if movement was applicable. (Hlupic, Walker, & Irani, 1998)

In 2002, Phornchanok Cumperayot (Cumperayot, 2002) in his research 'Dusting off the perception of risk and returns in forex markets' captured the exchange rate volatility, in addition to traditional fundamentals (like money supply and real income) time variation of these fundamentals are incorporated to describe the expected exchange rate returns. The paper found an evidence for the correction of equilibrium errors towards the long run equilibrium in the modified sticky-price model. In the long run, an increase in the domestic money supply or a decrease in the foreign money supply tends to depreciate the domestic currency and vice-versa. The paper suggested that impacts of macroeconomic sources of risk like BOP, inflation, GDP, capital inflows are significant. Uncertainty about the economy lowers the demand for the currency, relative to the fundamental based value. From an asset pricing perspective, increased risk is accompanied by increased expected future returns, leading to a current depreciation of currency. (Cumperayot, 2002)

A. Sarkar, P. Barat in 2004 investigated the scaling behavior of the average daily exchange rate returns of the Indian Rupee against four foreign currencies namely US Dollar, Euro, Great Britain Pound and Japanese Yen. Average daily exchange rate return of the Indian Rupee against US Dollar is found to exhibit a persistent scaling behavior and follow Levy stable distribution. On the contrary the average daily exchange rate returns of the other three foreign currencies do not show persistency or ant persistency and follow Gaussian distribution

N R Bhanumurthy (2006) in his study titled 'Microstructures in the Indian Foreign Exchange Market' examined the relevance of macroeconomic models vis-à-vis models based on the market microstructure theory in the context of short-run behavior of the Indian foreign exchange market. In specific, the paper investigates the relative importance of macro (domestic interest rates) and micro (order flows and number of transactions) variables in determining the short-run exchange rate movements. Empirical analysis is based on both secondary data and on a primary survey of the Indian foreign exchange dealers. Analysis of the secondary data reveals that micro variables (order flow) have a significant impact on the exchange rate movement compared to macro fundamentals. The primary survey corroborates these findings. That is, a majority of the dealers feel that short-term changes in the Indian Rupee/US dollar market are basically influenced by the micro variables such as market movement, speculation, Central Bank intervention, etc. One of the major findings of

this study would be that the dealers feel speculation would increase volatility, liquidity and efficiency in the market and on the other hand, Central Bank intervention reduces volatility and market efficiency.

Sivakumar Anuradha and Sarkar Runa (Anuradha & Runa) evaluated the various alternatives available to Indian firms for hedging foreign exchange exposure. The paper concludes that forwards and options are preferred as short term hedging instruments while swaps are preferred as long term hedging instruments. The high usage of forward contracts by Indian firms as compared to firms in other markets underscores the need for rupee futures in India. The paper concludes by pointing out that the onus is on Reserve Bank of India, the apex bank of the country, and it's Working Group on Rupee Futures to realize the need for rupee futures in India and the convertibility of the rupee

In survey conducted by Rudra Kumar of ICFAI Business School, explored that every investor knew about the Derivatives. These investors were below 35 years of age. These investors were mainly the employees. Out of examined investors who knew about the derivatives, they traded in derivative instruments. The most famous derivatives among investors were in stocks and index. The investment in stock derivatives was preferred by 66 per cent while investment in index instrument was found to be around 34 per cent. Out of investors who knew about derivatives whether just aware or trade in it, almost 70 per cent of them knew about the Currency future derivatives and used it for hedging, speculation and arbitrage. 14 per cent were found using it as hedging and for 29 per cent of people were using it as speculation. The most important fact which came out was, about 57 per cent of examined people used it for both hedging and speculation depending upon the market situation.

STATEMENT OF NEED

The foreign exchange market has gained a lot of importance in recent years and has become an essential part of every economy, but there are very few developed foreign exchange markets today. London is the forex capital of the world today and others are mostly centered on organized markets like New York, Tokyo, Zurich, Honk Kong, Singapore etc. India being one of the fastest growing economies of the world and its ambition to become a developed economy by 2020, it needs a developed forex market to back its economy.

RESEARCH METHODOLOGY

- **RESEARCH OBJECTIVES**

o To know the awareness and prospect of currency market in Ahmedabad city.

o Analyze the movement of INR against USD in recent years.

o To find the risk and return trade off in currency market.

o To find the best strategies that is helpful in currency market.

- **RESEARCH METHODOLOGY**

o **Data Collection:**

Sound market research depends upon the existence facts or directly related to problem studied. To fulfill an aforesaid objective of study, the information gathered from the primary as well as secondary sources

o **Sources Of Data Collection**

✓ *primary data:*

The primary data has been collected with the help of questionnaires which have been filled by exporters, importers ,brokers ,people who invest in currency market and also those who trade in equity, commodity but not in currency in Ahmedabad. The data collected by this survey will be further utilized to evaluate the awareness of currency trading in Ahmedabad and its prospect

✓ *Secondary Data:*

Secondary data has been collected with the help of Internet, newspapers, articles and the weekly research report of Anand Rathi

- **RESEARCH DESIGN:**

The research is primarily both exploratory and descriptive in nature. Exploratory research to gain insights and ideas and descriptive research to determine the frequency with which something occurs.

- **SAMPLING DESIGN:**

o Sampling size: 80

o Sampling technique: Convenient Sampling

o Sampling unit: The respondents of Ahmedabad city.

- **LIMITATIONS OF THE STUDY:**

No study is without any limitation. In this research also I encountered a number of problems. Which are:

- o As the currency future is a new concept, very few people were aware and so it was difficult to elucidate them and get proper responses.

- o Respondents unaware of the currency trading concept replied only few questions.

- o With scarcity of time, people were not willing to fill the entire questionnaire and did not take the survey genuinely.

- o Some respondents felt hesitant to reveal their personal and financial information which influenced the validity of responses.

- o Most people feel comfortable with traditional system and are willing to trade from their respective brokers, hence prevented themselves from providing true opinion.

- **DATA ANALYSIS**

Hypothesis development

Rupee Depreciation vs. Inflation:

An increase in the inflation would lead to the rise in the price of domestic commodities. With increase in prices, export may decline because now price may not be competitive. With the decrease in exports the supply of foreign currency would also decline and thereby causes the decline in external value of the domestic currency. For example both India and the USA experience 10% inflation, the exchange rate between rupee and dollar will remain same. If inflation in India is 10 % and in the USA it is 15%, the increase in prices would be higher in India as that of USA. Therefore with increase in inflation exchange rate will decline and hence domestic currency will depreciate.

- Null hypothesis: H0= Dollar rate and inflation are inversely proportional to each other

- Alternate hypothesis: H1= Dollar rate and inflation are directly proportional to each other

Correlations

		INFLATION	DOLLAR
INFLATION	Pearson Correlation	1	-.235[**]
	Sig. (1-tailed)		.019
	N	100	100
DOLLAR	Pearson Correlation	-.235[**]	1
	Sig. (1-tailed)	.019	
	N	100	100

**. Correlation is significant at the 0.01 level (1-tailed).

Analysis-From the above table we can conclude that the coefficient of correlation between these two variables is -0.235 which means the degree of association between these two variable sets is -0.235.We are using Z-Test because sample size ≥ 30. (Here the sample size is 100).Now since the significance is .019 therefore confidence level will be (1-.019)*100= 99.10%

Further there are also demand side and supply side factors which also affect the inflation considerably. When there is supply crunch in the economy, prices of commodities shoot up, thus increasing the rate of inflation. Again increase in liquidity can be one of the reasons which affect inflation. In such a scenario RBI steps in and tries to bring inflation under control to provide relief to common people.

A.) Rupee Depreciation vs. Capital Inflow:

Capital inflows are in the form of FDI, Portfolio Inflows (foreign money that is invested in equity) external commercial borrowings (ECB) by Indian companies, Remittances by NRIs and many other sources. When there is strong flow of capital into the economy the rupee appreciates and vice versa. But there is the exchange rate gain if the rupee depreciates.

We can say that rupee and foreign investment move in opposite direction. Whenever foreign investment flows in India have increased, Rupee has become stronger and vice versa.

- Null hypothesis: H0= There exists a positive co-relation between dollar rate and capital inflow.

- Alternate hypothesis: H1= Dollar rate and Capital inflow are inversely proportional to each other.

Correlations

		DOLLAR	FII
DOLLAR	Pearson Correlation	1	-.232[*]
	Sig. (1-tailed)		.010
	N	100	100
FII	Pearson Correlation	- .232[*]	1
	Sig. (1-tailed)	.010	
	N	100	100

*. Correlation is significant at the 0.05 level (1-tailed).

Analysis- It is observed that the coefficient of correlation between these two variables is -0.232 that means the degree of association between these two variable sets is -0.232. Since the significance is .010 therefore confidence level will be (1-.010)*100= 99%.

C,) Rupee Depreciation vs. Exports:

The new financial year started on the dismal note for the country's foreign trade due to weakening of rupee against the Dollar. Exports including service sector accounts for almost 23% of India's GDP. The reasons for decline in exports can be:

1) Weakening global demand as the retailers are trying to get rid of the pilled stocks.

2) Exporters fear that the rupee may weaken further which can lead to loss in Forex contracts.

3) The banks are not giving pre-shipment finance easily fearing that it may lead to NPA due to global crisis.

Thus we can say that there exists an inverse relationship between dollar rate and Exports.

- Null hypothesis: H0= Dollar rate and Exports are directly proportional to each other.
- Alternate hypothesis: H1= Dollar rate and Exports are inversely proportional to each other.

Correlations

		DOLLAR	EXPORT
DOLLAR	Pearson Correlation	1	-.752[**]
	Sig. (1-tailed)		.000
	N	100	100
EXPORT	Pearson Correlation	-.752[**]	1
	Sig. (1-tailed)	.000	
	N	100	100

Correlations

		DOLLAR	EXPORT
DOLLAR	Pearson Correlation	1	-.752[**]
	Sig. (1-tailed)		.000
	N	100	100
EXPORT	Pearson Correlation	-.752[**]	1
	Sig. (1-tailed)	.000	
	N	100	100

**. Correlation is significant at the 0.01 level (1-tailed).

Analysis- The coefficient of correlation between these two variables i.e. dollar rate and Exports is -0.752 with confidence level of 100%.

D.) Rupee Depreciation vs. Imports:

The weakening of the rupee against the dollar will increase the import cost, resulting in huge loss to Importers. The reasons behind the decrease in imports can be:

1) Falling exports as a considerable part of our imports are re-exported

2) Reduction in the crude oil prices

3) Deceleration in manufacturing activity and investments.

Thus whenever Imports have fallen currency has appreciated, thus we can say that there exists a negative correlation between Dollar rate and Imports.

- Null hypothesis: H0= There exists a negative co-relation between dollar rate and Imports.

- Alternate hypothesis: H1= There exists a positive co-relation between dollar rate and Imports.

		DOLLAR	IMPORT
DOLLAR	Pearson Correlation	1	-.768[**]
	Sig. (1-tailed)		.000
	N	100	100
IMPORT	Pearson Correlation	-.768[**]	1
	Sig. (1-tailed)	.000	
	N	100	100

**. Correlation is significant at the 0.01 level (1-tailed).

Analysis- the coefficient of correlation between these two variables that is dollar rate and Imports is -0.768 with confidence level of 100%

E.) Rupee Depreciation and Balance of Payment

From the past trend we can see that our imports have always been higher than our exports. An increase in domestic price level makes foreign goods and services cheaper. It lowers export earnings and boosts import bill. Lower export reduces the supply of foreign exchange whereas greater import increases the demand of foreign exchange. This leads to the depreciation of the domestic currency.

Financial inflows will increase supply of foreign currency whereas outflow will increases the supply of domestic currency. Thus inflow will cause appreciation and outflow will causes depreciation of domestic currency

Thus a reduction in BOP will lead to appreciation of Indian rupees and vice-versa.so we researchers say that there exists a negative correlation between Balance of payment and dollar rate.

- Null hypothesis: H0= Dollar rate and BOP are inversely proportional to each other.

- Alternate hypothesis: H1= Dollar rate and BOP are directly proportional to each other. (H0).

Correlations

		DOLLAR	BOP
DOLLAR	Pearson Correlation	1	.745**
	Sig. (1-tailed)		.000
	N	100	100
BOP	Pearson Correlation	.745**	1
	Sig. (1-tailed)	.000	
	N	100	100

**. Correlation is significant at the 0.01 level (1-tailed).

Analysis-From here we can easily say that the coefficient of correlation between these two variables that is dollar rate and BOP is -0.745 that means the degree of association between these two variable sets is -0.745. Now since the significance is .000 therefore confidence level will be (1-.000)*100= 100%

F.) Rupee Depreciation vs. GDP:

We can see that despite the global meltdown India is able to maintain a stable GDP growth rate of and is the second after china in terms of GDP growth. Thus researchers say that there exists a positive correlation between GDP growth and movement of Indian currency.

GDP growth is sign of a rising economy and when the domestic currency will perform better the demand for it will increase resulting in increase in the overall growth of the economy. Thus we can say that there is a positive relationship between Dollar rate and GDP.

- Null hypothesis: H0= There exists a positive co-relation between dollar rate and GDP.

- Alternate hypothesis: H1=There exists a negative co-relation between dollar rate and GDP (H0).

Correlations

		DOLLAR	GDP
DOLLAR	Pearson Correlation	1	-.801[**]
	Sig. (1-tailed)		.000
	N	100	100
GDP	Pearson Correlation	-.801[**]	1
	Sig. (1-tailed)	.000	
	N	100	100

**. Correlation is significant at the 0.01 level (1-tailed)

Analysis-From here we can confirm that the coefficient of correlation between these two variables that is dollar rate and GDP is -**0.801** that means the degree of association between these two variable sets is -**0.801** and confidence level is 100%.

- **MULTIVARIATE REGRESSION**

Dependent variable- Dollar

Independent variables- Inflation, GDP, Exports, Imports, Capital Inflows

- o **Regression analysis:**

Assumptions: For doing the regression analysis one has to select independent and dependent variable. Here dollar rate has been taken as the dependent variable and Inflation, GDP, Exports, Imports, Capital Inflows are independent variables. The least square method of regression analysis has been used. (Formula is, Y=a+bX where a, b= constant, X= independent variable and Y= dependent variable).

Thus the regression equation will be:

Dollar = a0 +a1 (Capital Inflow) +a2 (Inflation) +a3 (GDP) +a4 (Export) +a5 (Import).

Result:

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.839[a]	.704	.688	1.33205	.304

a. Predictors: (Constant), IMPORT, INFLTN, GDP, CAPINFLW, EXPORT

b. Dependent Variable: DOLLAR

Analysis:

As we can see the coefficient of correlation value R= 0.839 for the various independent variables taken together. This is being verified by this regression analysis.

The R2 value identifies the proportion of variance in Dollar rate accounted for by Inflation, GDP, Exports, Imports, and Capital Inflows. So here we can say that 70.4% of the variance in dollar rate is explained by all the factors. So actually R2 is the goodness of fit for this regression analysis. Though, R2 is an accurate value for the sample drawn but is considered an optimistic estimate for the proportion value. The adjusted R2 is considered to be a better sample estimate. So here we can see that the adjusted R2 value is 0.688 or 68.8%. In this regression analysis the standard deviation of the expected values for the dependent variable i.e. the standard error is 1.33205.

Result:

ANOVA[b]

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	419.716	5	83.943	44.416	.000[a]
Residual	177.655	94	1.890		
Total	597.371	99			

a. Predictors: (Constant), GDP, INFLATION, FII, IMPORT, EXPORT

b. Dependent Variable: DOLLAR

Analysis:

The one way analysis of variance has been performed in SPSS 17.0 in to check the goodness of fit of the collected data. Its purpose is to observe that these data's Dollar rate and Inflation, GDP, Exports, Imports, and Capital Inflows are good enough to give appropriate

results. The last column indicates the likelihood that this result could appear by chance, as it is coming zero that means the data's are absolutely perfect for the analysis.

Model	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics				
	B	Std. Error	Beta	T	Sig.	Zero-order	Partial	Part	Tolerance	VIF
1 (Constant)	51.929	.838		61.966	.000					
FII	5.385E-5	.000	-.103	-1.616	.110	-.232	-.164	-.091	.776	1.289
INFLATION	-.043	.087	-.030	-.498	.619	-.235	-.051	-.028	.845	1.184
EXPORT	9.171E-5	.000	.554	1.701	.092	-.752	.173	.096	.030	33.549
IMPORT	-8.927E-5	.000	-.918	-2.848	.005	-.768	-.282	-.160	.030	32.841
GDP	781	.173	-.479	-4.503	.000	-.801	-.421	-.253	.280	3.573

Thus, the **coefficient equation** will be:

Dollar = 51.929 + (-.103) Capital inflow + (-0.030) inflation + (-0.479) GDP+ (0.554) Exports+ (-0.918) Imports.

So the Null Hypothesis is tested & validated to be true.

- **ANALYSIS OF QUESTIONNAIRE**

To study the current market scenario of currency market, a primary research was conducted using the survey method. The respondents were asked to fill up the questionnaire. The analysis part shows the questions asked and the responses given by the respondents.

Q. Are you aware about Currency trading in NSE and MCX-SX?

Awareness	No. of Respondents	%
Aware	30	37 %
Unaware	50	63 %

The result shows that people lacked awareness about the currency trading. The data shows that only 37 % of the respondents were aware about the currency trading in the renowned exchanges of NSE and MCX-SX.

Q. Do you trade in Currency?

Trade	No. of Respondents	%
Yes	15	19 %
No	65	81 %

The analysis of the above question shows that involvement of the investors in currency trading was very low. Only 19 % of the respondents surveyed said that they did not trade in the currency segment.

**Q. what is your monthly trading volume in currency market: (table)**

The number of respondents who trade in currency market was 15, i.e. 19%. Of those who trade in currency, 53% had the average monthly volume of less than 1 crore. Among the rest, who trade in currency, 20 % of respondent traded with the average monthly volume of Rs. 3-5 crore and more than 5 crore each. While the remaining 7% of the respondents trade an average monthly volume of Rs. 1-3 crore.

Trading Volume and different Currencies

Currencies / Volume	Dollar (%)	Yen (%)	Euro (%)	Pound (%)	Other (%)
< 1 CR	72.5	0	10.62	11.88	3.75
1 - 3 CR	80	0	20	0	0
3 - 5 CR	33.33	3.33	33.33	30	0
> 5 CR	68.33	1.66	25	3.33	1.66

Analysis: The above table shows the investment in different currencies under different trading volume ranges. It was found in the analysis that Dollar was the most preferred currency for the respondents belonging to any of the trading volume range. But as the trading volume increases other currencies are also considered as a trading option. YEN and other currencies were least preferred

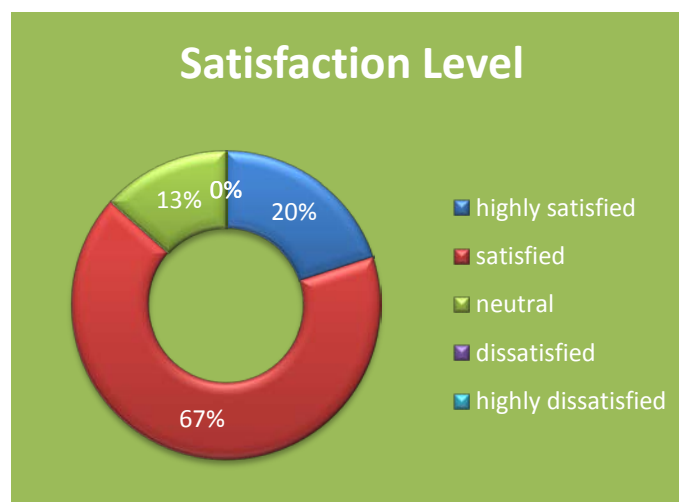**Q. How do you prefer managing your risk in currency market?**
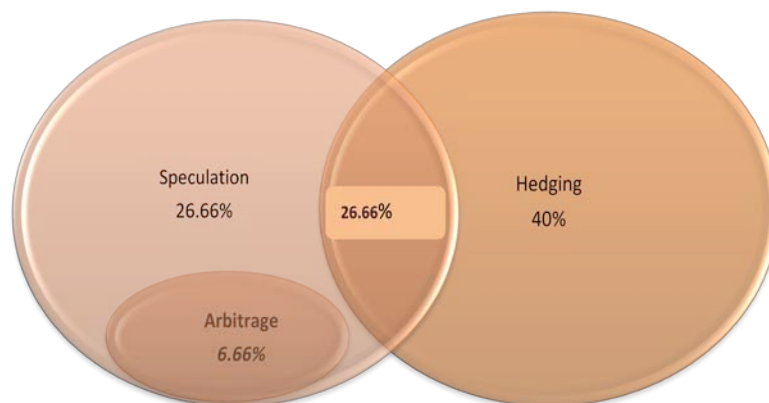
Analysis: On asking about the trading strategies used, 40% of the respondents who traded in currency chose to hedge their position. 26.66% of the respondents used only the speculation strategy to earn profits as they have high risk appetite. Another 26.66% of the respondents used both speculation and hedging strategies so that they can maximize their return by speculating using some part of their money and rest used for hedging purpose for security. There was only 1 respondent who played using the arbitrage strategy.

Profile of investor	Avg. Risk-Return %		Avg. Risk-Return
	Avg. Risk %	Avg. Return %	Ratio preferred
Hedger	2.58%	3.55%	5:7
Speculator	17.2%	5.72%	3:1
Hedger & Speculator	10.25%	5.75%	2:1
Arbitrage & Speculator	20%	5%	4:1

o Hedgers have less risk appetite but they expect comparatively high return to set off their risk.

o Speculators are ready to face high risk for comparatively low returns. They are responsible for price fluctuation in the market and liquidity.

o Those who hedge and speculate at the same time, invite less risk as compared to pure speculators.

o The Arbitragers take advantage of the price differences in the markets. The ones who Arbitrage and speculates at the same time eye to gain higher returns and for that reason they are ready to take higher risk.

Q. What is your overall opinion about the Currency trading or hedging?

Satisfaction Level

- highly satisfied — 20%
- satisfied — 67%
- neutral — 13%
- dissatisfied — 0%
- highly dissatisfied

Analysis: The above analysis shows the satisfaction level of the investors. The research found that those who traded the currencies, 87% of the respondent said that they were satisfied or highly satisfied. The point to be noticed here is that, among any of the respondent, no one was dissatisfied with currency trading.

Q. In which of the following options do you invest:

	EQUITY	COMMODITY	CURRENCY
Series1	66.25%	15%	21.25%

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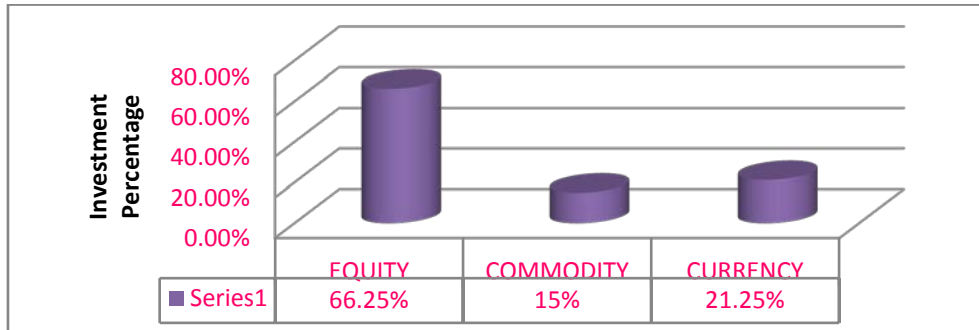
Reasons	No. of respondents	Percentage
Lack of awareness	42	52.5
Risky field	24	30
Lack of time	29	36.25
Lack of advisory	24	30
other	1	1.25

Analysis: The study has revealed that equity is the most preferred option among investors. 66.25% of the respondents said that they traded in equity and the second preferred option was currency.

When asked the reasons for not trading in currency market, the main reason was the lack of awareness about this field (52.5) and the next reason high scored reason was the lack of time. Risky field and Lack of advisory was a problem for 30% of the people and there was no strong reason other than these.

People generally tend to say no to anything about which they don't have knowledge, this is a human psychology. So lack of time was not a problem but awareness was an issue, this is proved by the table given below.

1. =No. of respondent trading in equity	2.=Trading in equity but not in currency	3.=column 2.+Lack of awareness of currency	4.=Column 2 +Lack of time	5. = column 3+ 4
53	46	30	21	11

Analysis: 21 people who traded in equity but not in currency stated the reason of not trading in currency as lack of time. 11 of the respondents reasoned lack of awareness of currency market, so it can be inferred that the problem is lack of awareness and not lack of time for them because when they had time to trade in equity they could afford to spare some time to trade in currency. Thus these people can be targeted by the company.

FINDINGS

- It was found that large traders have continued to deal in the OTC even if exchange traded currency future was available in markets. It was because of limit of USD 100 million on open interest applicable to bank trading member and USD 25 million limit for other trading members and so large traders prefer to deal in the OTC market where there is no hedging limit.

- In India, RBI and SEBI have restricted other currency derivatives except Currency future, so if any individual wants to use other instrument of currency derivatives, he has to opt for OTC.

- It was found that people with higher income level i.e. greater than 10 lakhs usually invested in all three equity, commodity and currency. Whereas people with income of < 2 lakhs preferred only equity and respondents under the income group 2- 5 lakhs and 5-8 lakhs and 8 – 10 lakhs favored trading in currency with low volumes.

- The age group which was found to be most aware and traded in currency was between 20 to 40 years. People above the age of 40 did not show any interest in learning new techniques and were happy with their trading in equity market.

- 80% respondents who invested in currency dealt through banks and only 20% wished to trade through private broking firms. The main reason dogged was to avoid unnecessary brokerage and margin amount.

- During the course of study it was found that dollar was the most preferred currency by most of the traders due to its stability and strong position in the international markets.

RECOMMENDATIONS

• **Future contract should be introduced in other currencies as well instead only in USD-INR:**

Once the new market segment gains traction, RBI along with SEBI can look at introducing contracts in other currencies too, which would further help in making the market move away from the bilateral over-the-counter mode. Exchange traded currency future segment only one pair USD-INR is available to trade so there is also one more demand by the exporters and importers to introduce another pair in currency trading. Like POUNDINR, CAD-INR etc. There are other major currencies against which the rupee is transacted would have to be brought into the realm of futures. The road map to launch contracts on other currencies needs continuous innovation and improvement in the design of financial products, its customer service as well as all India delivery.

• **Trading hours should be increased in India**

In response to the emerging global development, RBI has taken a series of measures to augment forex and domestic liquidity. SEBI is studying a proposal submitted by exchanges to extend trading hours of the currency futures segment in line with commodities as both are linked closely with each other. If SEBI approves the demand, trading hours of currency futures will be extended to 11.30 pm from the existing 9 am to 5.30 pm. Internationally, trading in futures continues for nearly 23 hours a day. It is important that some space be given for the domestic players to understand the market and grasp it with more confidence before we allow the floor for FIIs. The financial sector needs to be opened up to greater competition so as to be able to provide world class financial services at competitive rates. They should work towards removal of entry barriers to domestic corporate player and foreign financial firms in all segments of the financial services industry. All legal tangle in currency futures can be avoided for growth of exchange traded currency futures.

• **Seminars and elaborate awareness programs should be conducted:**

While the volume of contract trading has grown impressively, the range and diversity of contracts and instruments developed and traded have not increased commensurately. It is

found that due to lack of knowledge of derivative especially currency future, it is not gaining its pace. Another reason is preoccupied concepts regarding the mode of investment.

Two prong strategies can be taken:

- **Firstly** focus on clients/investors already engaged in derivative trading other than currency futures.

- **Secondly**, focus on clients/investors who never tried their hand in derivative segment. This requires elaborate awareness program to attract retail investors.

• There are companies who offer 3% margin requirement thus reducing an overall cost of trade of the customer, which would be higher if he trades through bank. Thus the company can prepare a overall cost sheet for the internal purpose comparing the cost of their company and the bank and then this cost sheet can be showed to convince people who are confused or more reluctant to trade through broking firms than banks.

- As found that most of the speculators and arbitrager take higher risk for low returns and because of which they have run into heavy losses and as result left the market. So if there is such type of a client who takes higher risk for low returns in the company then they should be advised to maintain a proper risk return ratio which is 1:1.5 at least. This will never lead the client to go through extreme losses because proper stop loss level would be maintained according to the equity management of the client. This will never lead the existing client to go into depression and leave this market.

CONCLUSION

By far the most significant event in finance during the past decade has been the extraordinary development and expansion of financial derivatives. These instruments enhances the ability to differentiate risk and allocate it to those investors most able and willing to take it- a process that has undoubtedly improved national productivity growth and standards of livings. The currency future gives the safe and standardized contract to its investors and individuals who are aware about the forex market or predict the movement of exchange rate so they will get the right platform for the trading in currency future. Because of exchange traded future contract and its standardized nature gives counter party risk minimized. Initially only NSE had the permission but now BSE and MCX has also started currency future. It is shows that how currency future covers ground in the compare of other

available derivatives instruments. Not only big businessmen and exporter and importers use this but individual who are interested and having knowledge about forex market can also invest in currency future. Exchange between USD-INR markets in India is huge and these exchange traded contract will give more awareness in market and attract the investors.

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