

A STUDY ON CURRENCY DERIVATIVES IN INDIA

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ABSTRACT

This paper aims to compactly review the currency derivatives request and foreign exchange rate volatility. Derivatives are those financial instruments that decide their value from the underpinning means. After 1992 reforms Indian foreign exchange rate comes with big flux of foreign trade and investment. This reacted into high flux of foreign investment and foreign exchange rate trouble essential in these deals. Currency Derivatives are used for hedging the trouble of foreign exchange rate volatility. For reviewing the papers various journals named on arbitrary base. In the first section of this paper which is introductory section it includes currency Derivatives and its elaboration in India are explained. Further the review focus on substantially currency futures and options request in Ind price discovery in currency Derivatives market and its effect on foreign exchange rate volatility. Last section of review paper concludes it. This paper aims to understand the Currency Derivatives request in India. The literature review reveals that currency Derivatives are used for hedging as well as enterprise purpose. In this way the review facilitates the stylish hedging tool for currency threat operation. This paper will develop an understanding of currency Derivatives for all its druggies' wall, investors and bookmakers. It will also help experimenters who are of same exploration interest so that they make full understanding about it.

Key words: currency derivations, futures, options, foreign exchange rate, volatility, hedging, enterprise.

INTRODUCTION

Currency Derivatives are exchange-traded contracts inferring their value from their beginning asset, i.e., the currency. The investor buys or sells specific units of fixed currency on a pre-specified date and rate. These contracts are laboriously traded on the stock exchanges and are substantially used by importers and exporters to hedge against domestic currency change.

Currency secondary contracts are standardized contracts through a foreign nonsupervisory exchange with a central booking party. Since the currency Derivatives are diurnal agreement base and are traded in nonsupervisory requests the contracts have a specific expiry date and exclude the counterparty threat.

Currency Derivatives are futures and options contracts in which a specified quantum of a particular currency pair is traded on a pre-set date in the future. Trading currency Derivatives is analogous to trading stock and futures options.

Currency options and currency futures are dealt with on the grounds of the foreign exchange request. The foreign exchange rate is the value of a foreign currency in comparison to the domestic currency. The main participants in currency trading in India are banks, companies, exporters, and importers.

Types of Currency Derivations

(a) **Currency forwards:** A currency forward is an agreement between two parties where both parties agreed to buy/ sell a beginning asset at a destined price in the future. This involves future payments or receivables at an unknown foreign exchange rate.

(b) **Currency futures:** A futures contract is a formalized contract traded on an exchange, to buy or vend a certain beginning asset or an instrument at a certain date in the future, at a specified price. When the beginning is an exchange rate, the contract is nominated a "currency futures contract"

(c) **Currency options:** An option means an volition. A currency option is a contract giving the option purchaser (the buyer) the right, but not the obligation, to buy or sell a fixed quantum of foreign exchange at a fixed price per unit for a specified time period.

(d) **Currency swaps:** A currency swap is an agreement between two parties to exchange cash overflows in two different currencies.

Currency Derivatives traded at different stock exchanges in India

Derivative Product	Symbol	Listing date at NSE	Listing date at BSE	Listing date at USE (NYSE)	Listing date at MCX-SX
Currency Future	USDINR	28-Aug-2008	28-Nov-2013	20-Sep-2010	07-Oct- 2008
Currency Future	EUROINR	01-Feb-2010	28-Nov-2013	20-Sep-2010	01-Feb-2010
Currency Future	GBP INR	01-Feb-2010	28-Nov-2013	20-Sep-2010	01-Feb-2010
Currency Future	JPYINR	01-Feb-2010	28-Nov-2013	20-Sep-2010	01-Feb-2010
Currency Option	USDINR	29-Oct-2010	28-Nov-2013	29-Oct-2010	09-Aug-2012

Source: NSE, BSE, USE, MCX-SX June 2018

*NSE – National Stock Exchange *BSE – Bombay Stock Exchange *NYSE -New York Stock Exchange MCX – SX -Multi Commodity Exchange of India Limited

Major currency pairs:

The most traded currency pairs in the world are called the Majors. The list includes the following currencies: Indian (INR) Euro (EUR), US Dollar (USD), Japanese Yen (JPY), Pound Sterling (GBP), Australian Dollar (AUD), Canadian Dollar (CAD), and the Swiss Franc (CHF). These currencies follow the free-floating method of valuation. Amongst these currencies, the most active currency pairs are USDINR, EURUSD, USDJPY, GBPUSD, AUDUSD, CADUSD, and USDCHF.

OBJECTIVES

- To know about the derivative market.
- To analyze various currency Derivatives in NSE.
- To evaluate the performance of currency derivations.
- To analyze the currency Derivatives fluctuations using RSI Tools.
- To suggest the best currency in Investment Management

METHODOLOGY

The research methodology for the project involved the collection of data through two methods:

- Primary source
- Secondary source

The primary source of data is collected by an interactive personal interview with the concerned executives and customers of Motilal Oswal Financial Services.

The secondary source of data is collected for the purpose of data analysis we have taken four pairs traded in NSE. Get more information about this data collected from websites, articles, and journals related to the currency derivative market for academic points of knowledge. We referred NSIM currency derivative module workbook.

DATA ANALYSIS AND INTERPRETATION

Here we have taken the currency pair USDINR for the study. The duration is taken for the period is two months. The Relative Strength Index (RSI) statistical tool is used for the analysis purpose.

$$RSI = 100 - 100 / 1 + RS$$

$$RS = \text{AVG GAIN} / \text{AVG LOSS}$$

1. Analysis of USDINR Pair from 03-10-2022 to 28-11-2022:

Instrument - future currency (FUTCUR)

The open price of USDINR is Rs.81.7875 on 03-10-2022 and the close price is Rs.82.3025 on 28-11-2022. An oversold reading on the RSI in an uptrend is likely much higher than 30% and an overbought reading on the RSI during a downtrend is much lower than the 70% level. From the above analysis of the Dollar price for the duration of 03-10-2022 to 28-11-2022 the calculated RSI indicated that the Dollar price is up trend which means in the future dollar may go bullish.

2.Analysis of EURINR Pair from 03-10-2022 to 28-11-2022:

Instrument - future currency (FUTCUR)

The open price of EURINR is Rs.80.82 on 03-10-2022 and the close price is Rs.82.42 on 28-11-2022. An oversold reading on the RSI in an uptrend is likely much higher than 30% and an overbought reading on the RSI during a downtrend is much lower than the 70% level. From the above analysis of the Dollar price for the duration of 03-10-2022 to 28-11-2022 the calculated RSI indicated that the Dollar price is up trend which means in the future dollar may go bullish.

3.Analysis of GBPINR Pair from 03-10-2022 to 28-11-2022:

Instrument - future currency (FUTCUR)

The open price of GBPINR is Rs.90.95 on 03-10-2022 and the close price is Rs.95.24 on 28-11-2022. An oversold reading on the RSI in an uptrend is likely much higher than 30% and an overbought reading on the RSI during a downtrend is much lower than the 70% level. From the above analysis of the Dollar price for the duration of 03-10-2022 to 28-11-2022 the calculated RSI indicated that the Dollar price is up trend which means in the future dollar may go bullish.

4. Analysis of JPYINR Pair from 03-10-2022 to 28-11-2022:

Instrument - future currency (FUTCUR)

The open price of GBPINR is Rs.56.67 on 03-10-2022 and the close price is Rs.55.76 on 28-11-2022. An oversold reading on the RSI in an uptrend is likely much higher than 30% and an overbought reading on the RSI during a downtrend is much lower than the 70% level. From the above analysis of the Dollar price for the duration of 03-10-2022 to 28-11-2022 the

calculated RSI indicated that the Dollar price is up trend which means in the future dollar may go bearish.

5. Analysis of USDINR Pair from 03-10-2022 to 28-11-2022:

Instrument – option currency-PE (OPTCUR)

The open price of USDINR is Rs.85 on 03-10-2022 and the close price is Rs.74 on 28-11-2022. An oversold reading on the RSI in an uptrend is likely much higher than 30% and an overbought reading on the RSI during a downtrend is much lower than the 70% level. From the above analysis of the Dollar price for the duration of 03-10-2022 to 28-11-2022 the calculated RSI indicated that the Dollar price is in a downtrend. That means the future dollar may go bearish.

Instrument – option currency – CE (OPTCUR)

The open price of USDINR is Rs.85 on 03-10-2022 and the close price is Rs.74 on 28-11-2022. An oversold reading on the RSI in an uptrend is likely much higher than 30% and an overbought reading on the RSI during a downtrend is much lower than the 70% level. From the above analysis of Dollar price for the duration of 03-10-2022 to 28-11-2022 the calculated RSI indicated that the Dollar price is in a downtrend. That means the future dollar may go bearish.

SUGGESTIONS

From this research I came to know that USDINR performance is more better than the other currency pairs since it gives more returns to the investors. It is the most popular and widely traded currency pair in the stock exchange. So I suggest to invest in USDINR currency pair for the investors.

SUMMARY

From the past decade performance of the currency derivatives significant growth in the derivative market. In the currency, Derivatives have low risk and investors are able to show willingness towards investing in currency Derivatives and undoubtedly improved national productivity growth. Mostly USDINR contracts are exchange traded in India.

The currency Derivatives are risk-free, safe, and standardized contracts for investors and individuals. It is easy to predict the market moments of exchange rates. Initially in India NSE only had permission to trade in the currency market but now BSE also starts trading. Not only businessmen, exporters, and importers use the currencies individuals also who are having knowledge and interest in the currency market can also invest in currency derivatives.

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