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MARKET PROGRESS AND TRADING PERFORMANCE OF CURRENCY FUTURES EXCHANGES IN INDIA

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ABSTRACT

The currency futures trading is the most volatile practice in the world when compare with other trading instrument. This study examines the market performance through the exchange traded volume. In this context, market cannot be performed without the investor contributions. Market performance is reflected by the traded contracts and value of the exchanges although currency market determinants are influencing the market performance such as International and domestic crisis, economic conditions, macro and micro structure system, investor behaviour and so on. This paper focuses on the movement of exchanges undergone since 2008 onwards. Exchange traded currency volume has been considered to analyse so as to data retrieve from the respective Indian currency trading exchanges of BSE, NSE and MSEI. Market turnover data have been analysed through statistical tools such as mean, median, standard deviation and Trend movement.

INTRODUCTION:

The introduction and growth of currency in the human society occupies an important place. Over these years, the currency has evolved from token to leather to coins. It has finally grown as a paper form around 200 years ago. All the countries are using resources to convert as money or currency for the common use. Each and every country has its own currency setup in different value that the currencies come under the limited boundary of acceptance and use in the world. As a growth of human economic development, currency format has been restructured into e-currency setup for many purposes. In the general term, money used as a medium of exchange for goods and services and currency is the basis for trade. Currencies are used to store the value and these are traded between the countries through foreign exchange market. The markets which are determine the relative values of the different country currencies. Each and every country depends on other nation on the basis of trade and using resources by the exchange or trade. Trade helps to make more money and it leads to creating monetary form in the global trading system. In the general form that a currency is a system of money and which has derived by different monetary units.

Currencies are in national use and while trade in the international transactions those are settled in the global currencies. Usually the currency trading is buying or selling for one to another and it constitutes. Trading of currencies which are comes under the forex exchange market and it is a decentralised market in the world. The currency trading has been listed under the derivative segment. Derivative means its value drives from some underlying financial assets. It can be securities, commodities, currencies and so on. A simple example, derivatives is curd which is derived from milk. Hence, the concept of derivative is derived from the existing trade system. Derivative products have some uniqueness which helps in the portfolio against the future risk. In the modern world, all trading system has been structured into the online format and the trading of derivative instruments are working through the online path. More number of currencies are participating in the global contest that around above hundred currency pairs are traded in the international currency market.

In India, there are four currency pairs have been allowed in futures trade and which are helps to hedge against foreign exchange risk. The currency pairs has listed as US Dollars (USD-INR), Euro (EUR-INR), Great Britain Pound (GBP-INR) and Japanese Yen (JPY-INR) and currency options trading available for USDINR only.

Derivative instruments are being under an efficient risk management in the market. The currency derivatives instruments are traded under the contracts which are segmented into four types as Forwards, Futures, Options and swaps. Currency instruments can be traded through Over the Counter market (OTC) and Exchange traded Derivatives (ETD). Currency forward is a negotiated contract between buyer and seller where settlement takes place on a specific date in the future at pre agreed price by both parties and it is an OTC instrument that is not traded in the centralised exchange.

A future is a standardised exchange traded contract to exchange one currency for another at a specified date in the future at a price that is fixed on the date of purchase. Option where the buyer has right but not the obligation to buy or sell the currency at a pre agreed exchange rate on a specified date. Options are of two types call option and put option. Call option is a right to buy a currency at a predetermined price (strike price) on or before a specific date. Put option is a right to sell a currency at a predetermined price on or before a specified date. Swap is an arrangement between two parties to exchange sequence of cash flow for a set period of time. These are not a standardized contract and are not traded through the exchange. The most common type of swaps is interest rate swap and currency swap. Derivatives are used beneficially for hedging, arbitrating and speculation itself.

The risk of currency market pertains to volatility of currencies in the exchanges. Currency prices are affected by different economic and political factors. The most probable determinants of currency movements are inflation, trade balance, interest rates, political conditions, country reserves or wealth of the nation and so on.

CENTRALISED EXCHANGES OF CURRENCY TRADING IN INDIA

National Stock Exchange (NSE) was received the initial approval from Security Exchange Board of India (SEBI) to begin a currency derivative segment in India. The exchange has launched currency futures trading platform on 29th August 2008. Initially, USDINR was introduced in the futures segment then another three currency pairs of EURINR, GBPINR and JPYINR has been launched subsequently. NSE has automated screen based trading system which is namely called as National Exchange for Automated Trading (NEAT). In this system all kind of transactions and dealings, settlements and clearings has been made by the electronic platform. Option contracts have been introduced by the NSE on 29th October 2010.

MCX-SX has been launched its currency futures platform on 7th October 2008 for USD-INR. Initially USD_INR were allowed to trade and subsequently launched other pairs to trade against the Indian rupee. At present MCX-SX has been transformed into Metropolitan Stock Exchange of India Ltd (MSEI). MSEI was launched as Debt market segment on 7th June 2013 and it has initiated the trading segment on10th June 2013. Currency derivative segment has been continued through the MSEI on 20th January 2014. MSEI are conducting the clearing and settlement requirements through the MCX-SX clearing corporation Ltd. BSE has commenced the currency futures trading on 29th November 2013. It is similar to the Stock Futures and Options but the underlying happens to be currency pair (i.e. USDINR, EURINR, JPYINR OR GBPINR) instead of Stocks.

There are two instrument types are available in India for the currency trading it is as futures and options. The unit of trading designed as lot which includes 1000 units of currency i.e. one unit denotes 1000 USD. The contract trading cycle is 12 months period of time. The mode of settlement by Indian rupees only and daily settlement has been undertaken for all futures contract transactions on every end of the day. Market trading hours has charted at 9 a.m. to 5 p.m. from Monday to Friday only.

OBJECTIVES

- To identify the market price mechanisms of currency trading in India
- To analyse the exchange traded volumes of currency pairs in futures
- To find out the market movement based on the traded volumes

EXCHANGE TRADING PERFORMANCE FOR CURRENCY FUTURES:

The exchange performance has been measured through the traded volume of the currency futures. The exchange traded volumes are being a market indicator to understand the investment level of the market. The trading volume has been taken into account to evaluate the market growth. The measurement has been analysed through the growth rate technique.

Year	NSE Traded Value (₹ in Crores)	Growth Rate	MSEI Traded Value (₹ in Crores)	Growth Rate	BSE Traded Value (₹ in Crores)	Growth Rate	Total Market Values (₹ in Crores)	Growth Rate
2008-09	162272.47 (52.16)	-	148825.92 (47.84)	-	Nil	-	311098.39 (100)	-
2009-10	1782608.10 (47.83)	998.53	1944654.15 (52.17)	1206.66	Nil	-	3727262.25 (100)	1098.10
2010-11	3279002.20 (43.88)	83.94	4194017.51 (56.12)	115.67	Nil	-	7473019.71 (100)	100.50
2011-12	3378488.75 (47.51)	3.03	3732445.58 (52.49)	-11.01	Nil	-	7110934.33 (100)	-4.85
2012-13	3765105.18 (53.27)	11.44	3303178.77 (46.73)	-11.50	Nil	-	7068283.95 (100)	-0.60
2013-14	2940885.94 (52.75)	-21.89	2422410.20 (43.45)	-26.66	211815.98 (3.8)	-	5575112.12 (100)	-21.12
2014-15	2247992.37 (53.44)	-23.56	651764.38 (15.49)	-73.09	1307077.30 (31.07)	517.08	4206834.05 (100)	-24.54
2015-16	2749332.83 (55.83)	22.30	324575.51 (6.59)	-50.20	1850359.56 (37.58)	41.56	4924267.9 (100	17.05
Total	20305687.84		16721872.02		3369252.84		40396812.70	
Mean	2538210.98		2090234.00		1123084.28		5049601.59	
SD	1150594.48		1589309.98		834623.47		2372498.60	
Co variance	45.33		76.04		74.32		46.98	
Minimum	162272.47		148825.92		211815.98		311098.39	
Maximum	3765105.18		4194017.51		1850359.56		7473019.71	
Skewness	-1.37		-0.01		-0.94		-1.11	

Source: www.nseindia.com, www.msei.in, www.bseindia.com (Figures in brockets indicate percentage to total)
*2008-09 data for 7 months only from Aug 08 to mar 09,

Table 1 describes that the Exchange traded currency futures performances in India during April 2008 to March 2015. Online Currency trading system has been launched in the year of 2008 in India. US Dollar has highly market demanded for trade during these decades hence that both exchanges NSE and MSEI have traded the currency volume turned over upto ₹311098.39 crores of value in the market. Initially, NSE and MSEI was holding 52.16 per cent and 47.84 per cent of the market share respectively in the year of 2008-09. Both exchanges have been increasing in market trend upto 2012-13 by the traded value. From the year of 2013-14 onwards both exchanges has been decreasing the volume of trade due to the reasons of Global economic uncertainty.

The currency trading has distressed after the year of 2013-14. All Indian currency trading exchanges have sensitive impact by the global crisis. The growth rate of the NSE market volume has been consistently decreased in the year of 2013-14 upto -21.89 per cent and again it has decreased in the year of 2014-15 of -23.56 per cent. The growth rate of the BSE volume has been negatively performed in the year of 2011-12 of -11.01 per cent and consistently it has in decreased upto -73.09 per cent in the year of 2014-15. BSE has started the currency trading in the year of 2013-14 during the period BSE has attained the turnover of ₹211815.98 crores and it has been consistently increasing in the year of 2014-15 of ₹ 1307077.30 crores and 2015-16 of ₹1850359.56 The growth rate of the BSE has reached upto 517.08 per cent in the year of 2014-15. Co-variance results show the gradual performance of exchanges for currency trading value during the year of 2008-2015. NSE has delivered the consistent performance and it has attained the lowest co-variance value of 49.42 points when compare with other exchanges.

CONCLUSION

Market participants are attracted to trade and hedge against the currency pairs in India during the decades of 2008-09. NSE and MCX have the equal market share in which they were occupied a significant role in currency trade. Investors have been spread among the exchanges although growth of the currency trading volume has not been well in the market. There are many reasons behind of that declining trend. Demand and supply gap has been increasing between the US Dollar and Indian Rupee and it was the major cause to lead devaluations among the currency pairs because most of the Indian investors are trading against US dollar. This impact has been reflected in the market hence the exchange traded volume has been dropped down due to the reasons of rupee value fall against USD. Retail investors has felt more risk in the currency trading and moved their investment into other instruments like equity, commodity and so on.

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