Chapter 6

Conclusions, Findings and Recommendations
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6.1 Conclusions

1. The correlation coefficients among the various currency derivatives are significant. (Elaborate all currencies with each other.)

Right now there are four currencies traded in India vs INR, namely USD, EURO, GBP and YEN. All four currencies trade with INR in India. So the impact of Indian economic situation is reflect on against the currency, whether it is appreciation or depreciation. Same impact we can see opposite currency countries economy on INR. It means it is clearly shows that currencies correlation or movement depend on the country’s economy position is better than the other currencies countries or not?

2. Inflow / outflow of Foreign Funds and RBI interventions are the most significant factors that determine the value of a currency of India.

Inflow/Outflow of foreign funds –

Inflow of foreign funds comes from FII, Foreign Institutional Investor. The flow of foreign fund decides the move of your countries currency. If foreign fund comes in a huge numbers then it indicates that FII believes on your countries economy, local currency becomes strengthen.

If foreign fund goes out from India, it indicates that your economy not so much performing & FII searching new economies those are performing than yours to invest their fund to get more returns.

When INR become weak against other currencies like anything, in that case RBI sells opposite currency in the market in a huge way. By this activity INR become stronger against other currency. RBI intervened in the market both ways, directly or indirectly. Whenever rupee is in under pressure RBI sells dollars in spot and forward market and increase the interest rate but at the time of rupee in crisis, direct intervention in the foreign exchange market is the main policy. This situation is where rupee is in under pressure.
So RBI intervention is very much important activity to decide the move of INR.

1. There is high extent of awareness and penetration level of Investor in Currency Derivatives Market in India.

2. There is significant impact of awareness on penetration level of investor in Currency Derivatives Market in India.

Now a day’s investor of the financial market is more cautious & keeps update of everything where he is invested. Investor or traders keeps update of everything which is related to their investment.

They update with

A. India’s GDP
B. Economic Situation
C. Interest Rate
D. Political Situation
E. Government performance
F. Fiscal Deficit
G. Current Deficit
H. Balance of Payment
I. Fundamentals of India
J. Capital Flows
K. Policy Decision etc.

From the above data updates from the investor shows that how they are aware about the market.

3. There is significant impact of participant’s viz. Hedgers, Speculators and Arbitrages on Currency.

**Hedgers** -

Hedgers use the hedging technique to minimize their loss. Hedging means taking a position in the future market that is opposite to a position in the physical market with a view to reduce or limit risk associated with unpredictable changes in exchange rate.
Speculators–

Speculators or Traders plays an important role in currency future market. Even if currency future market made for hedgers but it is not useful to them without traders for trades done.

Arbitrageurs-

Basically arbitrageurs are looking for the profit only. They have not any type of exposure or risk in currency future market. Arbitrageurs are books the profit by transaction in two or many markets simultaneously.

4. There is significant impact of aspects such as currency forward, future contract, call option and put option on Currency.

- Currency Forwards:

Forward contract is a contract between two parties, where settlement takes place on a specific date in the future at today’s pre-agreed price.

- Currency Futures:

A future is a similar product as forwards but difference is that futures are an exchange traded product. A future contract is a standardized contract which traded on exchanges to buy abs sell certain underlying asset at certain date with specified price called “future contract”.

When underlying asset is an exchange rate then the contract called as “currency future contract”.

Currency Options:

Option not buying and selling underlying directly but it is right to buy or sell with obligation on the underlying. When there is right to buy i.e. it is call option and when it is right to sell i.e. it is put option.
6.2 Findings

1. The model which is designed on the basis of empirical study has tolerance limit up to (-5% to +5%).

2. The RBI Reference rates are keeping the changes even though there is no change in closing value.

3. With the points “Inflow / outflow of Foreign Funds and RBI interventions”, there are also most significant factors available which determines the value of a currency in India as above

4. There is lack of awareness in Indian Currency Derivatives Market in Investor/Trader.

5. Investors are still looking the investments in currency market as business.

6. The highest participation is from age group 30-40(42%) where as the respondent between the age 30-50 contributes around 63% of the sample in the study. Thus the major group consists of earning people

7. The highest participation is from the business group (51%) where as the respondent group of business and service class contributes around 91% of the sample in the study. Thus again the major group consists of earning people

8. The highest participation is from the Rs 30,000-Rs.60,000 income group (46%) where as the respondent group of income Rs.15000-Rs.1,00,000 contributes around 78% of the sample in the study. Thus again the major group consists of earning people.

9. The major proportion (70%) of the sample is aware about currency market in India.

10. The major proportion (70%) of the sample is aware since last 2 years about currency market in India.

11. The major proportion (45%) of the sample is aware from the brokerage firms in India.

12. The major proportion favors USD (60%) as their promising currency.
13. The major proportion expects around 30% returns on their investments p.a. in the market.

14. The proportion (51%) of respondents considering it as Businesses maximum.

15. The proportion (44%) of respondents considering it for Hedging is maximum.

16. The proportion (81%) of respondents who are recommending is maximum.

17. The proportion (70%) of respondents who are aware is maximum.

18. The proportion (57%) of respondents who are attempting is maximum.

19. The proportion (45%) of respondents considering it For Import/Export is maximum.

6.3 Recommendations

1. Researcher have been tried to establish the model which could be useful for the forecasting/estimation of the currency value. As the model is designed, the estimation provided by the model had lied between (-5% to +5%) of the actual value. The basic idea used behind this is that there is effect of previous 90 days on the current values as per it is observed in a study & after that researcher found this model.

2. The Reserve Bank of India compiles on a daily basis and publishes reference rates for Spot USD/INR and Spot EUR/INR. The rates are arrived at by averaging the mean of the bid / offer rates polled from a few select banks around 12 noon every week day (excluding Saturdays). The contributing banks are selected on the basis of their standing, market-share in the domestic foreign exchange market and representative character. The Reserve Bank periodically reviews the procedure for selecting the banks and the methodology of polling so as to ensure that the reference rate is a true reflection of the market activity.

   **RBI** declares the reference rate daily basis against all the currencies at noon. But this rate is not applicable for the future rate. Future contract trades up to 12 months ahead from the current month contract. We see mostly trading in nearest future contract, not more than 4-5 contracts ahead. So closing value of that future contract is same but same time RBI reference rate keep changing. There is significant correlation found among the currencies. Now there are
four currencies traded in India vs INR, namely USD, EURO, GBP and YEN. All four
currencies trade with INR in India, so the impact of Indian economic situation is reflect on
against the currency, whether it is appreciation or depreciation. Same impact we can see
opposite currency countries economy on INR. It means it is clearly shows that currencies
correlation or movement depend on the country’s economy position is better than the other
currencies countries or not?

Table 6.1: Information of respondents about ‘Attributes influencing on the Currency Market in India’

<table>
<thead>
<tr>
<th>Attributes influencing on the Currency Market in India</th>
<th>% of respondents who stated the criterion as either very important or important</th>
<th>5</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>Total Value; (%)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inflow of Foreign Funds</td>
<td>74%</td>
<td>103</td>
<td>44</td>
<td>31</td>
<td>9</td>
<td>13</td>
<td>10.07%</td>
<td>2</td>
</tr>
<tr>
<td>RBI interventions</td>
<td>73%</td>
<td>104</td>
<td>42</td>
<td>33</td>
<td>19</td>
<td>2</td>
<td>10.21%</td>
<td>1</td>
</tr>
<tr>
<td>Trade balance</td>
<td>69%</td>
<td>92</td>
<td>45</td>
<td>35</td>
<td>18</td>
<td>10</td>
<td>9.77%</td>
<td>3</td>
</tr>
<tr>
<td>GDP</td>
<td>67%</td>
<td>82</td>
<td>51</td>
<td>33</td>
<td>21</td>
<td>13</td>
<td>9.49%</td>
<td>4</td>
</tr>
<tr>
<td>Govt. Policies</td>
<td>66%</td>
<td>84</td>
<td>47</td>
<td>31</td>
<td>25</td>
<td>13</td>
<td>9.44%</td>
<td>5</td>
</tr>
<tr>
<td>variation in Interest rates</td>
<td>65%</td>
<td>45</td>
<td>85</td>
<td>41</td>
<td>21</td>
<td>8</td>
<td>9.12%</td>
<td>6</td>
</tr>
<tr>
<td>Release of Economic data</td>
<td>63%</td>
<td>51</td>
<td>74</td>
<td>33</td>
<td>25</td>
<td>17</td>
<td>8.86%</td>
<td>7</td>
</tr>
</tbody>
</table>

3. Inflow of foreign funds comes from FII, Foreign Institutional Investor. The flow of foreign
fund decides the move of your countries currency. If foreign fund comes in a huge numbers
then it indicates that FII believes on your countries economy, local currency becomes strengthen.. If foreign fund goes out from India, it indicates that your economy not so much performing & FII searching new economies those are performing than yours to invest their fund to get more returns. When INR become weak against other currencies like anything, in that case RBI sells opposite currency in the market in a huge way. By this activity INR become stronger against other currency. RBI intervened in the market both ways, directly or indirectly. Whenever rupee is in under pressure RBI sells dollars in spot and forward market and increase the interest rate but at the time of rupee in crisis, direct intervention in the foreign exchange market is the main policy. This situation is where rupee is in under pressure. So RBI intervention is very much important activity to decide the move of INR.

4. I have seen there is so many traders is well known about equity market, commodity market but still they are not so much familiar with currency derivatives market. There is one reason behind, this market just launched in India in August 2008, so this is very new market for traders so this market is not so much popular like equity market commodity market. There is lack of awareness in Indian currency derivatives market.

5. In this market means in currency derivatives market I have seen that there so many traders or investors are not doing trading for hedging purpose. They do the trading in currency future market for speculation only, to make money from speculation. Even they know what is the risk in that, but they still using this market for speculation purpose not for pure hedging purpose by taking huge risk.

6. In recent years, investors discovered currencies as a distinct asset class and potentially an additional source of income. Lower returns on traditional asset classes, such as equities and bonds, Currencies can offer not only diversification but also the potential for additional returns.