

A PROJECT REPORT ON CURRENCY DERIVATIVES

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ABSTRACT

Currency derivatives are considered to be one of the best options to manage any risk against foreign currency exchange rate volatility. Currency derivatives are exchange-based futures and options contracts that allow one to hedge against currency movements. Simply put, one can use a currency future contract to exchange one currency for another at a future date at a price decided on the day of the purchase of the contract. In India, one can use such derivative contracts to hedge against currencies like dollar, euro, U.K. pound and yen. Corporates, especially those with a significant exposure to imports or exports, use these contracts to hedge against their exposure to a certain currency.

1 INTRODUCTION

While all such currency contracts are cash-settled in rupees, the Securities and Exchange Board of India (SEBI), early this year, gave a go-ahead to start cross currency contracts as well on euro-dollar, pound-dollar and dollar-yen.

The two national-level stock exchanges, BSE and the National Stock Exchange (NSE), have currency derivatives segments. The Metropolitan Stock Exchange of India (MSEI) also has such a segment but the volumes are a fraction of that witnessed on the BSE or the NSE. One can trade in currency derivatives through brokers. Incidentally, all the leading stock brokers offer currency trading services too.

2 NEED OF THE STUDY

- The need of the study is to know the performance of derivative hedging and working and understanding about how to derivative help people to manage the risk and increase the profitability.

- Most of the investors are not aware about investing in currency derivatives. My project will be helpful for Investors who wants to gain profitability in Foreign currencies.
- To gain knowledge about process of foreign currency Investments.

3 OBJECTIVES OF THE STUDY

- To analyze various currency derivatives in NSE.
- To evaluate the performance of currency derivatives.
- To analyze the currency derivatives fluctuations using RSI Tools.
- To suggest best currency in Investment Management.

4 SCOPE OF THE STUDY

Since currency derivatives is new to the market so the study helps to gain knowledge about currency derivatives and its investment options both for the institutional investors and individual

investors. The study tries to analyze the current trend in currency derivatives market, so it helps for market evaluation. The study helps to identify the concept of hedging in a simplified manner.

5 RESEARCH METHODOLOGY

PRIMARY DATA:

I have collected data by interacting with the people who are trading in currency derivatives.

SECONDARY DATA:

For the purpose of data analysis I have taken four pairs traded in NSE. To get more information about this` I collected data from websites, articles and journals related to currency derivative market. for academic point of knowledge I referred NISM currency derivative module work book

SAMPLE SIZE:

- USD/INR

SAMPLE DURATION:

One year data is taken for analysis purpose.

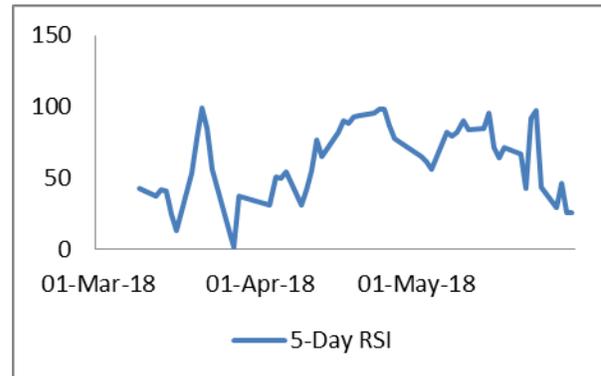
STATISTICAL TOOLS:

$$\text{Relative Strength Index(RSI)} = 100 - \frac{100}{1+RS}$$

6 LIMITATIONS OF THE STUDY:

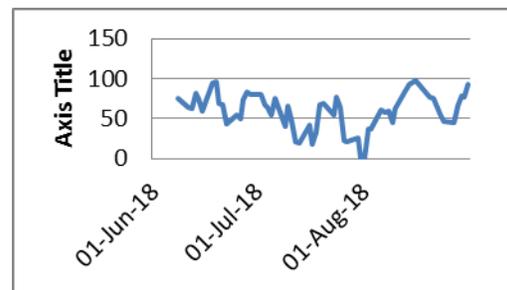
- This analysis is purely based on secondary data. So any error in the secondary data might also affect the study undertaken
- The currency future is a new concept and the related book is not available.
- Confidential matters were not disclosed by the company.
- There were time constraints.

7.DATA ANALYSIS



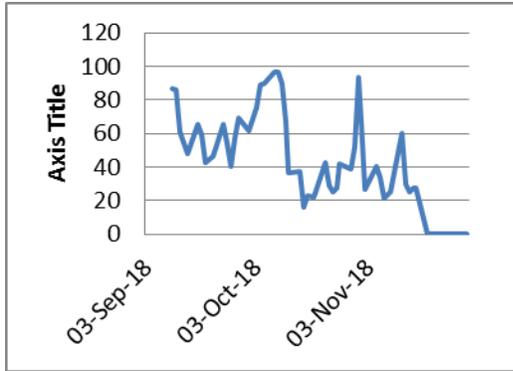
INTERPRETATION:

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 01-mar-18 to 31-may -18 the calculated RSI indicated that Dollar price in down trend. Recorded RSI is at 25.49 which mean in future Dollar may go bearish.



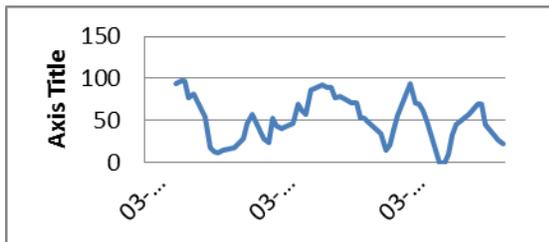
INTERPRETATION:

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 01-Jun-18 to 31-Aug -18 the calculated RSI indicated that Dollar price in up trend. Recorded RSI is at 93.17 which means in future Dollar may go bullish.



INTERPRETATION:

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 01-Sep-18 to 31-Nov -18 the calculated RSI indicated that Dollar price in down trend. Recorded RSI is at 0 which means in future Dollar may go mostly bearish.



INTERPRETATION:

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 01-mar-18 to 31-may -18 the calculated RSI indicated that Dollar price in down trend. Recorded RSI is at 25.49 which means in future Dollar may go bearish.

8.FINDINGS

- Investor should be maintain strict stop-loss while trading in currency derivatives
- Currency Future need to change some restriction it imposed such as cut off limit of

5 million USD, Ban on NRI's and FII's and Mutual Funds from Participating.

- Now in 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 POUND-INR, CAD-INR etc.

9.SUGGESTION

- In OTC there is no limit for trader to buy or short Currency futures so there demand arises that in Exchange traded currency future should have increase limit for Trading Members and also at client level, in result OTC users will divert to Exchange traded currency Futures.
- In India the regulatory of Financial and Securities market (SEBI) has Ban on other Currency Derivatives except Currency Futures, so this restriction seem unreasonable to exporters and importers. And according to Indian financial growth now it's become necessary to introducing other currency derivatives in Exchange traded currency derivative segment.

10.CONCLUSIONS

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.

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