IMPACT OF CURRENCY DERIVATIVE ON INVESTORS IN INDIAN CAPITAL MARKET

[1]S.Sudheer, [2]Y.Harika, [3]J.Sruthi
[1]Assistant Professor, Department of Management Studies, VFSTR Deemed to be university, Guntur (DT) AP
[2]II MBA, Department of Management Studies, VFSTR Deemed to be University, Guntur (DT) AP.
[3]II MBA, Department of Management Studies, VFSTR Deemed to be University, Guntur (DT) AP.

ABSTRACT:

The capital market is a vital of the financial system. Capital market provides the support of capitalism to the country. The wave of economic reforms initiated by the government has influenced the functioning and governance of the capital market. The Indian capital market is also undergoing structural transformation since liberalization. The chief aim of the reforms exercise is to improve market efficiency, make stock market transactions more transparent, curb unfair trade practices and to bring our financial markets up to international standards. Further, the consistent reforms in Indian capital market, especially in the secondary market resulting in modern technology and online trading have revolutionized the stock exchange. Since 1991, due to liberalization of economic policy, the Indian economy has entered an era in which Indian companies cannot ignore global markets. Before the nineties, prices of many commodities, metals and other assets were controlled. Others, which were not controlled, were largely based on regulated prices of inputs. As such there was limited uncertainty, and hence, limited volatility of prices. But after 1991, starting the process of deregulation, prices of most commodities are decontrolled. It has also resulted in partly deregulating the exchange rates, removing the trade controls, reducing the interest rates, making major changes for the capital market entry of foreign institutional investors, introducing market based pricing of government securities,

etc. All these measures have increased the volatility of prices of various goods and services in India to producers and consumers alike. Further, market determined exchange rates and interest rates also created volatility and instability in portfolio values and securities prices. Hence, hedging activities through various derivatives emerged to different risks. This paper will study the capital market in India with reference to Derivatives.

Keywords:Development of banks, capital market, co operative bank, insurance.

1. INTRODUCTION

The capital market is the market for securities, where Companies & governments can raise long-term funds. It is a market in which money is lent for periods longer than a year. A nation's capital market includes such financial institutions as banks, insurance companies, & stock exchanges that channel long-term investment funds to commercial & industrial borrowers. Unlike the money market, on which lending is ordinarily short term, the capital market typically finances fixed investments like those in buildings & machinery.

Nature & Constituents:

The capital market consists of number of individuals & institutions (including the government) that canalize the supply & demand for long term capital & claims on capital. The stock exchange, commercial banks, co-operative banks, saving banks, development banks, insurance companies, investment trust or companies, etc., are important constituents of the capital markets.

The capital market, like the money market, has three important Components, namely the suppliers of loan able funds, the borrowers & the Intermediaries who deal with the leaders on the one hand & the Borrowers on the other.

The demand for capital comes mostly from agriculture, industry, trade the government. The predominant form of industrial organization developed. Capital Market becomes a necessary infrastructure for fast industrialization.Capital market not concerned solely with the issue of new claims on capital,But also with dealing in existing claims.

NEED FOR THE STUDY

- In fact, the capital market is sub-part of a financial system. The other part of the financial system is the money market. In fact, the capital market structure provides structural foundations for long-term capital flow in India.
- While the money market deals with short-term financing and its counterpart capital markets with the financing of long-term in nature.
- The primary aim of the capital market is to channelize those who have savings to those who need such savings. It generally involves a complex mechanism of institutions and systems.

OBJECTIVE OF THE STUDY

- ✓ To identify the investor preferences on which investment.
- ✓ To know the investors profit margin percentage.
- ✓ To know the currency derivative investment opinions.
- ✓ To know what factors attract invest in currency.
- ✓ To recognize where the currency derivative investor be.
- ✓ To know about current returns in currency derivative.

2. HISTORY OF CAPITAL MARKET

Established in 1875, the Bombay Stock Exchange (BSE) is Asia's first stock exchange. In 12th century France the *courratiers de change* were concerned with managing & regulating the debts of agricultural communities on behalf of the banks. Because these men also traded with debts, they could be called the first brokers. A common misbelief is that in late 13th century Bruges commodity traders gathered inside the house of a man called *Van der Beurse*, & in 1309 they became the "BrugseBeurse", institutionalizing what had been, until then, an informal meeting, but actually, the family Van der Beurse had a building in Antwerp where those gatherings occurred; the Van der Beurze had Antwerp, as most of the merchants of that period, as their primary place for trading. The idea quickly spread around Flanders & neighboring counties & "Beurzen" soon opened in Ghent & Amsterdam.

In the middle of the 13th century, Venetian bankers began to trade in government securities. In 1351 the Venetian government outlawed spreading rumors intended to lower the price of government funds. Bankers in Pisa, Verona, Genoa & Florence also began trading in government securities during the 14th century. This was only possible because these were independent city states not ruled by a duke but a council of influential citizens. The Dutch later started joint stock companies, which let shareholders invest in business ventures & get a share of their profits - or losses. In 1602, the Dutch East India Company issued the first share on the Amsterdam Stock Exchange. It was the first company to issue stocks & bonds.

The Amsterdam Stock Exchange (or Amsterdam Beurse) is also said to have been the first stock exchange to introduce continuous trade in the early 17th century. The Dutch "pioneered short selling, option trading, debt-equity swaps, merchant banking, unit trusts & other speculative instruments, much as we know them" There are now stock markets in virtually every developed & most developing economies, with the world's biggest markets being in the United States, United Kingdom, Japan, India, China, Canada, Germany, France, South Korea & the Netherlands.

IMPORTANCE OF STOCK MARKET

Function and purpose

The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange provides affords investors the ability to quickly & easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as real estate.

History has shown that the price of shares & other assets is an important part of the dynamics of economic activity, & can influence or be an indicator of social mood. An economy where the stock market is on the rise is considered to be an up-and-coming economy. In fact, the stock market is often considered the primary indicator of a country's economic strength & development. Rising share prices, for instance, tend to be associated with increased business investment & vice versa. Share prices also affect the wealth of households & their consumption. Therefore, central banks tend to keep an eye on the control & behavior of the stock market &, in general, on the smooth operation of financial system functions. Financial stability is the raison d'être of central banks.

Exchanges also act as the clearinghouse for each transaction, meaning that they collect &

Deliver the shares, & guarantee payment to the seller of a security. This eliminates the risk to an individual buyer or seller that the counterparty could default on the transaction.

The smooth functioning of all these activities facilitates economic growth in that lower costs & enterprise risks promote the production of goods & services as well as employment. In this way the financial system contributes to increased prosperity. An important aspect of modern financial markets, however, including the stock markets, is absolute discretion.

For example, American stock markets see more unrestrained acceptance of any firm than in smaller markets. For example, Chinese firms that possesses little or no perceived value to American society profit American bankers on Wall Street, as they reap large commissions from the placement, as well as the Chinese company which yields funds to invest in China. However, these companies accrue no intrinsic value to the long-term stability of the American economy, but rather only short-term profits to American business men & the Chinese; although, when the foreign company has a presence in the new market, this can benefit the market's citizens. Conversely, there are very few large foreign corporations listed on the Toronto Stock Exchange TSX, Canada's largest stock exchange. This discretion has insulated Canada to some degree to worldwide financial conditions. In order for the stock markets to truly facilitate economic growth via lower costs & better employment, great attention must be given to the foreign participants being allowed in.

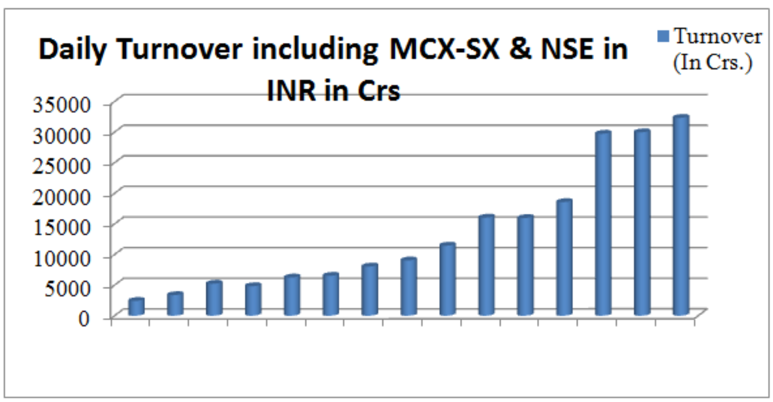
3. PROPOSED SYSTEM

During the early 1990s, India embarked on a series of structural reforms in the foreign exchange market. The exchange rate regime, that was earlier pegged, was partially floated in March 1992 and fully floated in March 1993. The unification of the exchange rate was instrumental in developing a market-determined exchange rate of the rupee and was an important step in the progress towards total current account convertibility, which was achieved in August 1994.

Symbol	Country	Currency	Nickname
USD	United States	Dollar	Geenback
EUR	Euro members	Euro	Fiber
JYP	Japan	Yen	Yen
GBP	Great Britain	Pound	Cable

Indian Currency Futures Market-Present Status

Currency Futures trading was launched in India on 29th Aug, 2016 on NSE.NSE & MCX'SX are the major two exchanges presently.BSE is almost non-active.



Times of India- Aug 31st, 2017

It has been exactly one year since the trading in Rupee – Dollar futures was introduced in India. Since then the currency derivative segment has grown by over 1500% in terms of daily average turnover. From about $ 60 million per day in August – September 2016, the current rate is nearly $1 billion per day in each of the two.

The Financial Express – Feb 6th, 2018

The total turnover in the segment has increased incredibly from $ 3.4 bn in October2016 to $84 bn in December 2017. The average daily volume reached $4 bn in December 2017. India had witnessed enhanced FIIs thus Indian currency is becoming an important currency in world market . According to BIS, the total share of Indian rupee in total daily average foreign exchange has increased from 0.1% in 1998 to 0.9% in April 2015. Since the exchange rate is volatile during the last few years and hence increased importance of ETF.

Major Events in International and Indian Monetary System

1. Free float of currencies - 1973.
2. Oil crisis in 1973 - quadrupling of oil prices
3. European Currencies float against US$ - 1978
4. Post emergency years
5. Majority Govt. formed - 1984-85
6. Liberalization of Indian Economy: devaluation of INR - 1991
7. East and South East Asian Currency crisis - 1997
8. Nuclear tests by India - 1998
9. Robust economic growth in India
10. High crude oil and commodity prices

Sector structure/Market size:

The Indian information technology industry has played a key role in putting India on the global map. Thanks to the success of the IT industry, India is now a power to reckon with. According to the National Association of Software and Service Companies (NASSCOM), the apex body for software services in India, the revenue of the information technology sector has risen from 1.2 per cent of the gross domestic product (GDP) in FY 1997-98 to an estimated 5.8 per cent in FY 2014-15.

India's IT growth in the world is primarily dominated by IT software and services such as Custom Application Development and Maintenance (CADM), System Integration, IT Consulting, Application Management, Infrastructure Management Services, Software testing, Service-oriented architecture and Web services.

The government expects the exports turnover to touch US$ 80 billion by 2017, growing at an annual rate of 30 per cent per annum, from the earlier few million dollars' worth exports in early 1990s.

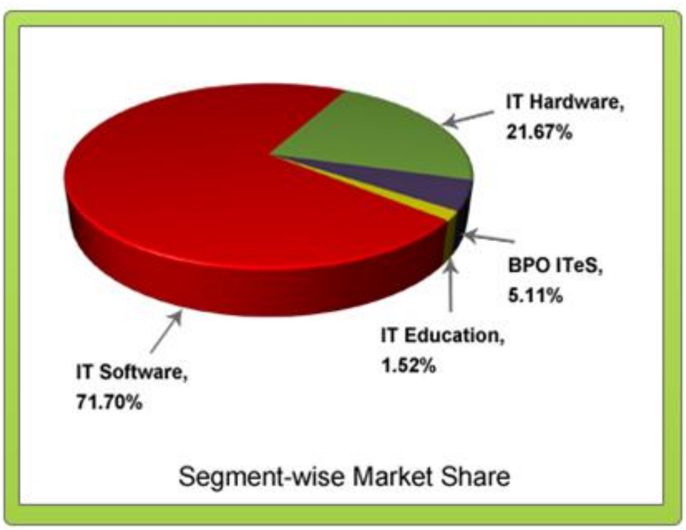


Fig.3.1. showing IT market structure.

No.	Responds	Percentage
Equity Commodity	13	13%
Gold / Silver	40	40%
Fixed Deposit	27	27%
Mutual Funds	20	20%
Total	100	100%

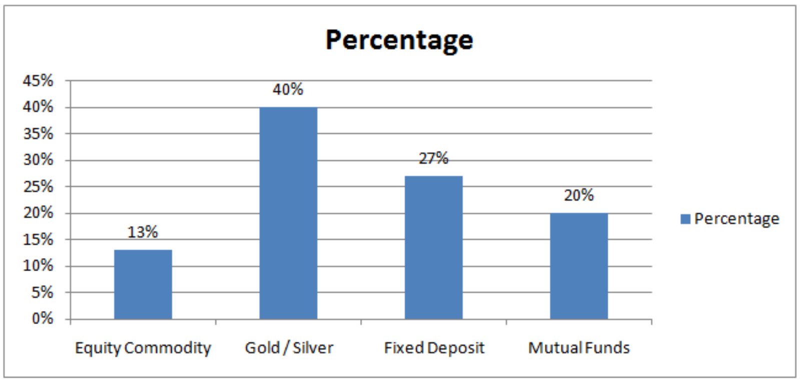


Fig.3.2.Comperision.

5. CONCLUSION

Our research shows that , there is huge scope for new investor to invest in currency derivative , as it provide good returns , and have safeguard investors' money , in case of high price fluctuations .a derivative contract makes investor secure and risk free in future , when he has to enter into contract in near future, and price movement of currency , does not affect his business.

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 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 they can also invest in currency future.

Exchange between USD-INR markets in India is very big and these exchange traded contract will give more awareness in market and attract the investors.

REFERENCES

[1] A. Antoniou, P. Holmes, and R. Priestley, “The effects of stock index futures trading on stock index volatility: An analysis of the asymmetric response of volatility to news?” *The Journal of Futures Markets*, vol. 18, no. 2, pp. 151-166, 1998.

[2] F. G. Kalantzis and N. T. Milonas, “Analyzing the impact of futures trading on spot price volatility: Evidence from the spot electricity market in France and Germany,” *Energy Economics*, vol. 36, pp. 454–463, 2013.

[3] R. Gahlot and S. K. Dutta, “Impact of futures trading on stock market: A study of BRIC countries,” *Study in Economies and Finance, Emerald Group*, vol. 29, pp. 118-132, 2012.

[4] D. Sahu, “Effect of equity derivatives trading on spot market volatility in india-An empirical exploration,” *European Journal of Business and Management*, vol. 4, no. 11, 2012.

[5] R. Singla, “Effects of derivatives on the volatility in the Indian stock market,” *Abhinav Journal, National Monthly Journal of Research in Commerce and Management*, vol. 1, issue 4, pp. 78-82, 2012.

[6] G. Kaur, “Impact of derivatives trading on market volatility and liquidity,” *International Journal of Research in Commerce and Management*, vol. 2, issue 3, no. 1, 2011.

[7] P. Sakhtivel and B. Kamaiah, “The effect of derivative trading on volatility of underlying stocks: Evidence from the NSE,” *Indian Journal of Economics and Business*, vol. 10, issue 4, 2011.

[8] G. Singh and S. Kansal, “Impact of derivatives trading on stock market volatility during pre and post F&O period: A case study of NSE,” vol. 1, no. 1, 2010.