Currency Futures Trading In India

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More than five decades of Indian economic planning and subsequent libralization had led the country to an ecstatic phase of development. The development through disintermediation, deregulation, globalization and emergence of the vibrant capital market has contributed to the expansion of opportunities. As a result, capital market has emerged as a major contributor to the growth of foreign exchange reserves of the country. In fact, in the emerging world market, India has beaten several developing countries. In the post-libralization era, the finance sector has witnessed a complete metamorphosis.

Financial intermediaries abroad have created new varieties of instruments and transactions called Derivatives and risk management tools such as options, futures and swaps which are used to transform one or more properties of an asset or liability. Financial liberalization has brought inherent risk, and as a result, corporate and institutional investors are looking towards derivatives for hedging the risk. Since the volume of international trade and capital flows are rising, more and more banks are exposed to various currencies and the emerging derivatives in foreign countries are increasingly used by banks to bring variations in the sensitivity of their funds and also the underlying portfolio.

Futures' trading is the most important and popular financial instrument under Derivatives through which the tradings are done in the capital market.

Thus, before going in depth regarding Currency Futures, it is necessary to explain what Derivatives are. What financial instruments are included in derivatives? and how they are activated and executed in day-to-day trading by the players of the capital market? Most of us do hear these terms but are not so familiar with their exact meanings.

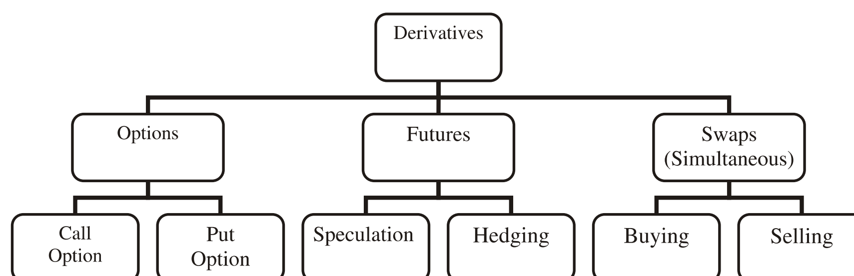
WHAT ARE DERIVATIVES?

Derivatives are financial instruments whose value is based on the market value of an underlying asset such as stocks, bonds or a commodity. In other words, derivatives are financial contracts that derive their value from other underlying instruments, for example, currencies, securities, indexes, etc.They are instruments providing exposure to all or part of a security, currency, commodity, index or other return, the price of which will move in a direct relationship to the price of the reference instrument.

Derivatives are used as risk-management tools by governments and corporations to reduce exposure to risk, mainly related to fluctuations in foreign-exchange and interest rates. Derivative instruments include swaps, options, futures and forward contracts and are used by banks in two principal activities: sales/trading and asset/liability management.

Thus, we can say that derivatives are index futures and options that reflect the price movement of an underlying security (e.g., a stock market index), but are traded separately from the cash market. As already mentioned, derivative instruments include options, swaps and futures. Options can be either Call Option or Put Option. Futures include Speculation and Hedging and Swaps consist of buying and selling of specified foreign currency by the banks.

The following chart shows the various instruments, that is, options, futures and swaps which come under derivatives and their sub-classifications.



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OPTIONS

An option is the right, but not the obligation to buy or sell something on a specified date at a specified price. In the securities market, an option is a contract between two parties to buy or sell specified number of shares at a later date on a specified price. Options are basically derivatives in the nature of legal contracts. They are derived from underlying assets which could be stocks, bonds, or currencies. Three parties are involved in the option trading, the option seller or writer who grants someone else the option to buy or sell and receives a premium on its price; the option buyer who pays a price to the option writer to induce him to write the option and the broker who acts as an agent to find the option buyer and the seller, and receives a commission or fee for it.

An option contract gives the holder the right to buy or sell the underlying stock at a price on a future date. This price is referred to as strike price. Depending on whether the holder is a buyer or seller, the options are termed put and call. A **call option** conveys the right of the holder to buy a specified quantity of stock while a **put option** conveys the right of the holder to sell. The buyer or the holder gets the right as laid down in the option, while the writer has the obligation to honour the terms when the option is exercised. Option trading has a good market in India since there is enough scope for speculation.

FUTURES

Futures is a financial contract which derives its value from the underlying assets. It is a contract specifying a future date of delivery or receipt of a certain amount of a specific tangible or intangible product. The commodities traded in futures markets include stock index futures; agricultural products like wheat, soybeans and pork bellies; metals; and financial instruments. Futures are legally binding standardized agreements to buy or sell a commodity, currency or security at a fixed time in the future, at a price agreed upon today. It is an exchange-traded contract that confers an obligation to buy or sell a physical or financial commodity at a specified price and amount on a future date.

Futures are essentially a series of forward contracts. In a forward contract, two parties agree to buy or sell some underlying asset on some future date at a stated price and quantity. The forward contact involves no money/ transaction at the time of signing the deal. But the forward market has the problem of lack of centralization of trading, liquidity and counterparty risk. Futures markets are designed to solve the problems of trading, liquidity and counterparty risk. Basically, futures markets resemble the forward market but they ensure standardized contracts, centralized trading and settlement through clearing houses to avoid counterparty risk.

A futures contract also differs from an option contract in the sense that it gives the holder the obligation to buy or sell, whereas an options contract, which gives the holder the right, but not the obligation. In other words, the owner of an options contract may exercise the contract, but both parties of a "futures contract" must fulfill the contract on the settlement date. The seller delivers the underlyer to the buyer, or, if it is a cash-settled futures, then cash is transferred from the futures trader who sustained a loss to the one who made a profit. To exit the commitment prior to the settlement date, the holder of a futures position has to offset his/her position by either selling a long position or buying back a short position, effectively closing out the futures position and its contract obligations.

Futures contracts, or simply *futures*, are exchange traded derivatives. The exchange's clearinghouse acts as counterparty on all contracts, sets margin requirements, and crucially also provides a mechanism for settlement.

There are two types of people who deal in futures**-speculators and hedgers**. **Speculators** buy and sell futures for the sole purpose of making profits by selling them at a price that is higher than their buying price. Such people neither produce nor use the asset in the ordinary course of business. In contrast, hedgers buy and sell futures to offset an otherwise risky position in the spot market. In the ordinary course of business, they either produce or use the asset.

Hedgers typically include producers and consumers of a commodity. For example, in traditional commodity markets, farmers often sell future contracts for the crops and livestock they produce to guarantee a certain price, making it easier for them to plan. Similarly, livestock producers often purchase futures to cover their feed costs, so that they can plan on a fixed cost for feed. Almost the same concept is there in the financial markets as well.

SWAPS

A swap deal is a transaction in which the bank **buys and sells** the specified foreign currency **simultaneously** for different maturity dates which would help banks to eliminate exposure risk. It can also be used as a tool to enter arbitrary operations that led the economy to be fully opened up.

CURRENCY FUTURES-A NEW DERIVATIVE OF INDIAN FINANCIAL MARKET

A **currency future**, also **FX future** or **foreign exchange future**, is a futures contract to exchange one currency for

another at a specified date in the future at a price (exchange rate) that is fixed on the purchase date. It is a transferable futures contract that specifies the price at which a specified currency can be bought or sold at a future date. Typically, one of the currencies is the US dollar. The *price* of a future is then in terms of US dollars per unit of other currency. This can be different from the standard way of quoting in the spot foreign exchange markets. The *trade unit* of each contract is then a certain amount of other currency, for instance €125,000. Most contracts have physical delivery, so for those held at the end of the last trading day, actual payments are made in each currency. However, most contracts are closed out before that. Investors can close out the contract at any time prior to the contract's delivery date. In other words, currency future contracts allow investors to hedge against foreign exchange risk. Since these contracts are marked-to-market daily, investors can--by closing out their position--exit from their obligation to buy or sell the currency prior to the contract's delivery date.

Thus, we can say that Currency futures are futures markets where the underlying commodity is a currency exchange rate, such as the Euro to US Dollar exchange rate, or the British Pound to US Dollar exchange rate. Currency futures are essentially the same as all other futures markets (index and commodity futures markets), and are traded in exactly the same way.

Futures based upon currencies are similar to the actual currency markets (often known as Forex), but there are some significant differences. For example, currency futures are traded via exchanges, such as the CME (Chicago Mercantile Exchange), but the currency markets are traded via currency brokers, and are therefore not as controlled as the currency futures. Some day, traders prefer the currency markets, and some day traders prefer the currency futures. Mostly, the currency futures are recommended as they do not suffer from some of the problems that currency markets suffer from, such as currency brokers trading against their clients, and non- centralized pricing.

HISTORY

Currency futures were first created at the Chicago Mercantile Exchange (CME) in 1972, less than one year after the system of fixed exchange rates was abandoned along with the gold standard. Some commodity traders at the CME did not have access to the inter-bank exchange markets in the early 1970s, when they believed that significant changes were about to take place in the currency market. They established the International Monetary Market (IMM) and launched trading in seven currency futures on May 16, 1972. Today, the IMM is a division of CME. In the second quarter of 2005, an average of 332,000 contracts with a notional value of $43 billion were traded every day. Currently, most of these are traded electronically.

Other futures exchanges that trade currency futures are Euronext.liffe and Tokyo Financial Exchange.

The IMM dates are the third Wednesday in March, June, September and December.

PRICING

The pricing of a currency futures contract is completely determined by the prevailing spot rate and interest rates. Otherwise, investors would be able to arbitrage the difference between the futures and spot prices.

The futures price is given by:

where:

- F = futures price
- S = spot price
- r_T = interest rate of the term currency
- r_B = interest rate of the base currency
- T = tenor (calculated according to the appropriate day count convention)

USES

(i) Hedging

Investors use these futures contracts to hedge against foreign exchange risk. If an investor will receive a cashflow denominated in a foreign currency on some future date, that investor can lock in the current exchange rate by entering into an offsetting currency futures position that expires on the date of the cashflow.

For example, Peter is a US-based investor who will receive €1,000,000 on December 1. The current exchange rate implied by the futures is $1.2/€. He can lock in this exchange rate by selling €1,000,000 worth of futures contracts expiring on December 1. That way, he is guaranteed an exchange rate of $1.2/€ regardless of exchange rate fluctuations in the meantime.

(ii) Speculation

Currency futures can also be used to speculate and, by incurring a risk, attempt to profit from rising or falling exchange rates.

For example, Peter buys 10 September CME Euro FX Futures, at $1.2713/€. At the end of the day, the futures close at $1.2784/€. The change in price is $0.0071/€. As each contract is over €125,000, and he has 10 contracts, his profit is $8,875. As with any future, this is paid to him immediately.
More generally, each change of $0.0001/€ (the minimum Commodity tick size), is a profit or loss of $12.50 per contract.

SETTLEMENT AND DELIVERY

As currency futures are based upon the exchange rates of two currencies, they are settled in cash, in the underlying currency. For example, the EUR futures market is based upon the Euro to US Dollar exchange rate, and has the Euro as its underlying currency. When a EUR futures contract expires, the holder receives delivery of $125,000 worth of Euros in cash. Note that this only happens when the contract expires, and as day traders do not usually hold futures contracts until they expire, they should not be involved in the settlement, and will not receive delivery of the underlying currency.

POPULAR CURRENCY FUTURES

Many of the most popular futures markets that are based upon currencies are offered by the CME (Chicago Mercantile Exchange), including the following:

- EUR - The Euro to US Dollar currency future.
- GBP - The British Pound to US Dollar currency future.
- CHF - The Swiss Franc to US Dollar currency future.
- AUD - The Australian Dollar to US Dollar currency future.
- CAD - The Canadian Dollar to US Dollar currency future.
- RP - The Euro to British Pound currency future.
- RF - The Euro to Swiss Franc currency future.

Complete descriptions of many of the above currency futures, including the exchange rate that they are based upon, the futures contract specifications, and the market holidays, are available in their Market Profiles.

CURRENCY FUTURES IN INDIA

On August 29, 2008, the Indian financial market witnessed the first currency future trading of the country when the Union Finance Minister, Mr. P. Chidambaram, clicked the first trade on the National Stock Exchange (NSE). The much-hyped currency future debuted with a turnover of nearly Rs. 291 crore, which is a good volume on the debut day.
East India Securities struck the first future deal buying 50 November contracts at Rs. 44.15 a dollar for its client Budge Budge Refineries Ltd, the Mumbai based brokerage. Among the bank participants, HDFC Bank carried out the first trade. ICICI Bank Ltd. sold 100 September contracts for Infosys between Rs. 43.835 and Rs. 43.8375. The largest trade was by Standard Chartered Bank constituting 15000 contracts. Banks' share of the total gross volume was 40 percent.
In order to encourage active participation in the Currency Derivatives segment, the NSE had decided that no transaction charges will be levied on the trades done in this segment on the exchange from August 29 till September 30. However, every trading member participating in currency derivatives during the above period shall be required to make a lump-sum contribution of Rs. 500 towards an Investor Protection Fund.
At present, only US dollar-Indian rupee contracts are allowed and Foreign Institutional Investors (FIIs) and Non-resident Indians (NRIs) are barred from this market. The contract size is 1,000 US dollars and the tick size (minimum price fluctuation) will be 0.25 paisa. But our Union Finance Minister has assured that the Currency Futures trading will be allowed to FIIs and non-resident investors and in other currencies also. He also said that India will introduce futures trading in interest rate also to boost the corporate bond market to keep pace with Dubai and Singapore as financial centers. He further added that the Government of India is seriously thinking about removal of entry barriers for domestic companies and foreign financial firms in all segments in the financial services industry.
SEBI Chairman, Mr. C. B Bhave has advised the intermediaries in the currency futures market to maintain discipline and avoid excessive speculation. Nearly, 70,000 contracts were traded on the NSE on the initial day and around 300 trading members, including 11 banks were registered in this segment. The total traded volume on the first day was $65.8 million, according to data compiled by Bloomberg from the bourse. The 12 serial month contracts were available for trading i.e., September 2008 to August 2009. The most active contract was September 2008 expiry with around 43,000 contracts being traded. The near-month contract traded at a premium of 0.40 per

cent to the spot price.
Aseem Dhru, MD, HDFC Securities said that the volumes in the market were good to begin with and day futures were taking cues from the movement of forward dollar rates from the OTC market.
The prices in currency derivatives segment shall be displayed, traded and reported up to the fourth decimal place instead of up to two. For example, Rs 42.50 shall be displayed as Rs 42.5000. All Group 1 securities, bank guarantees, receipts of fixed deposits will be allowed as collaterals for the margins required to be deposited by the investors trading in currency futures.
The trade in currency futures will co-exist with the already prevalent OTC market for forwards, where the banks and corporates have been hedging their foreign currency risks so far. The OTC market has an average daily volume of $34 billion, according to the NSE. Unlike OTC contracts that are bilateral, the exchange-traded currency futures contracts will be transparent.
Banks are also allowed to become members of the exchange to participate in currency futures trade. All resident Indians are allowed to participate in currency futures, but as already mentioned, NRIs and FIIs are not eligible to trade but this is expected to change once the local market has reached a maturity level.
Thus, India's biggest stock exchange started trading in currency futures on August 29, the first time the product has been made available in the subcontinent and a move long awaited by the local financial community.
“For the first time in India, it will be possible to trade on currency futures on an exchange platform,” said the National Stock Exchange, which earlier this month received an in-principle approval from India's stock market regulator to offer the derivative contract. The NSE's announcement was welcomed by market players because the contract will make it easier for bankers, brokers and private investors to interact in the currency market and to hedge their foreign exchange risks when trading.
“As brokers we will have new instruments to trade and it will make everything much more transparent,” said Sandeep Singal, head of futures and options at Emkay Global Financial Services.
In India, there is already an active over-the-counter market for currency forwards, swaps and options with an average daily turnover of $34bn, according to the NSE, which is India's biggest stock exchange in terms of volumes traded. However, this market is virtually non-accessible to individuals as trades are arranged directly between counterparties.
The NSE's new electronic trading platform is expected to attract many small private investors, according to market players. Foreign Institutional Investors and Non-Resident-Indians will not be allowed to trade directly, but this is expected to change once the local market has reached a maturity level, said traders.
The NSE's rival, Bombay Stock Exchange and India's Multi Commodity Exchange (MCX) also filed an application to the Securities and Exchange Board of India to start trading currency futures. MCX got approval to offer trading in futures on August 25, 2008. The Bombay Stock Exchange got the approval on August 31, 2008.
The NSE said that currency futures contracts would have a maximum value of $1000, although they will be settled in rupees, and each contract will have a 12 month maturity period.
The Securities and Exchange Board of India (SEBI) is mulling over the introduction of rupee-euro and rupee-yen contracts in currency futures soon. SEBI is in the process of studying the market for rupee-yen and rupee-euro and the contracts would be launched after considering the outcome of the study, said SEBI Chairman, Mr. C.B. Bhave. He also said that the market regulator would be launching interest rate futures within the next five months.
SEBI in this regard has released the detailed guidelines for getting eligibility. The trading members, clearing members will have to need SEBI's prior approval and product design should be as per RBI's released report. Banks that qualify the eligibility criteria will get permission from RBI and SEBI and can trade currency futures. RBI has set the eligibility for the banks in this regard. According to it, the qualified banks must be authorised by RBI, must have minimum net worth of Rs.500-crores, minimum CRAR of 10 per cent, net NPA should not exceed 3 per cent and must have earned net profit for the last 3 years.
RBI has also stated that there should be separate membership of recognised stock exchange for currency future trading from equity derivatives segment or the cash segment.
Thus, trading in currency future started in the Indian financial market too. According to Joseph Masse, Chief Executive Officer, Multi Commodity Exhange (MCX), “ this is the appropriate time to launch currency futures as a significant segment of the market has been left exposed to exchange-rate risk for too long.” According to the central bank, the futures allow “greater transperancy, efficiency and accessibility.”

CURRENCY FUTURES: A CRITICAL ANALYSIS

The greatest **advantage** of future trading is that it helps in hedging risk as it facilitates exchange of financial

Main Highlights of the Currency Futures trading in India

- Currency Futures trading in India was inaugurated on August 29, 2008 by the Union Finance Minister, Mr. P Chidambaram.
- It was started through NSE from September, 2008.
- At present, only Indian Rupee and US Dollar are being traded.
- Presently, it is allowed only to the Indian residents and not FIIs and NRIs.
- The minimum contract size is 1000 US Dollars.
- Maturity period of the contact is 12 months.

Future Strategy

- To allow trading in Currency Futures to FIIs and NRIs.
- To allow trading in other foreign currencies also.

To allow future trading in interest rates (subject to satisfactory performance of Currency Futures trading).

assests in the future at prices already determined in present and the price is 'lock-in' for future transaction , thus, uncertainty arising out of future fluctuations in assest prices is eliminated. Exporters, importers, hedge funds, non-banking institutions and speculators alike can take advantage of this alternative venue of FX liquidity and use the currency futures markets to manage foreign exchange risk, gain price improvement on trades, achieve lower trading costs and conduct their cross-border transactions more efficiently and securely. One of the most significant benefits of currency trading is the high amount of leverage that can be used. With up to 400:1 leverage, traders can control larger positions with less capital. But without appropriate use of risk management, a high degree of leverage can lead to large losses as well as gains. Advantages of trading currency futures will be:

- **Diversification:** Currency futures can provide investors with a well-balanced portfolio through diversification and low systematic risk. Price fluctuations in currency futures have very low correlations with price movements in stock market values and interest rates. This lack of any systematic relationship can lower portfolio risk when the equities and interest rates are in a depressed state.
- **24-Hour Trading:** Currency futures trade nearly 24-hours a day in the CME, Globex market or open out-cry trading pits.
- **Highly Liquid:** Investors can enter the currency futures markets and exit positions efficiently, as they are one of the largest and most liquid markets in the world. Currency futures markets can absorb trading volume and transaction sizes that dwarf the capacity of many of the world's equities markets.

But the concept of currency futures suffers from certain **disadvantages and criticisms** too. It may not provide opportunity for making profits, there is illiquidity and there is a default risk (credit party), that is, the party at disadvantage may default. In futures, commission, clearing and exchange fees are also charged which many speculators are unaware of. Futures go by tick prices; it is common that by the time order is placed, the price at which the speculator actually buys or sells may be different from the displayed tick price.

The currency futures trading has also been criticized on the ground that the private sector banks in India have mislead the small and medium scale exporters by luring them into currency derivatives they didn't understand after their bets went sour. Many of them are on the stage of bankruptcy today as they were made to believe that they will not suffer any risk in currency futures. Most of such exporters have no detailed knowledge on the working of the currency futures market. Banks like ICICI, HDFC, Axis, ABN Amro etc have caused loss of crores of rupees of the exporters. Since, the exporters had their accounts in these banks, the amount of losses were directly deducted from their accounts.

Due to the losses suffered by the exporters, they have formed an association called 'All India Derivatives Consumer Forum' which has raised the matter in the Finance Ministry and Reserve Bank of India that if the small and medium scale exporters are not protected from such situations, it will result in huge losses and unemployment like situation for them. The Forum has accused that at certain times, the banks have invested in Yen and at other times in Swiss Frank without informing the investors.

The Chairman of the Forum, Mr. Raja M. accused that the banks have not followed the RBI regulations in this regard and mislead the exporters. Sundaram Multi Pap Ltd. is among a dozen Indian companies that have filed lawsuits this year against local banks including ICICI Bank Ltd., Kotak Mahindra Bank Ltd. and Axis Bank Ltd. accusing them of hiding risks and causing losses to the exporters.

The RBI has also expressed the fear that excessive volatility in the exchange rate can have an adverse impact on

export performance and balance sheets.

In spite of these criticisms, the NSE has estimated that India's currency futures market may grow by 15 to 25 percent in the next 12 months. According to Mr. Ravi Narain, Chief Executive Officer, NSE, “the realization has increased that it is not only the interest rate that is a factor in an individual's economic life but also the exchange rate. It (currency futures trading) will be a slow start with potential for daily trading volumes to reach $35 billion.” Thus, the facility to enable investors to hedge their foreign exchange risk is expected to catch on gradually.

CURRENCY FUTURES PROSPECTS

Currency future is a standardized futures contract with currency as the underlying instrument. Put simply, it is a contract or an agreement to buy or sell any currency at a specified future date before contract expiry date. While the OTC market will understandably continue to dominate in volume terms, the first-cut structure of the futures market seems to indicate that fetters have already been put on its growth. Here's how. First, participants in the exchange cannot keep an open position larger than $5 million, a small limit compared to the typical hedging needs of those with currency exposures. This will necessarily force big corporates to stay rooted in the existing OTC market, and attract only very small companies and punters to the futures exchanges. While speculators provide liquidity and efficient price discovery to any market, their role will be constrained by the predominance of the OTC market and the apprehension of illiquidity in the futures market. Second, the report of the technical committee on exchange traded currency futures has prescribed that trading hours be restricted between 9 am to 5 pm. Apart from raising fundamental questions about why the committee should be bothering about this issue, and not leaving it to the discretion of the exchange, it also displays the regulators' determination to keep its control over even the futures market.

Third, the market has forbidden entry to non-resident Indians and foreign institutional investors. Most overseas investors, especially portfolio investors, have turned to the Singapore-based non-deliverable forwards market to hedge their investments in India. The regulators have looked on as this off-shore market has grown in size. That raises the question: is there a future for the currency futures market, without full convertibility, or without round-the-clock trading? But it's the regulatory front that promises some entertainment. The committee report states: “A SEBI-RBI constituted committee would meet periodically to sort out issues, if any, arising out of overlapping jurisdiction of the currency futures market.” It will be interesting to see how the three different layers of this peculiar regulatory structure- the exchanges, SEBI and RBI manage their internal contradictions.

For those who are new to futures trading, the key factor to understand is the leveraging character of the product and the associated risk. The currency movements in the last few months bear out the importance of having currency in one's portfolio and how the futures platform, with the availability of the one-year contract, makes it possible. If a person wants to trade in currency futures as a retail investor, then he or she needs to get himself/herself registered with a trading member of the exchange after entering into agreement and KYC (know your customer) details. According to Jayant Manglik, commodity business, Religare Commodities, “Currency futures trading is similar in form and structure to equity and commodity futures trading. Therefore, anybody already having exposure to either of these can make a seamless transition.” With regard to the costs, there are two primary costs involved in trading on currency futures brokerage fees and transaction costs. Although there are no transaction charges from the exchange to promote the product at present, this can change any time.The brokerage structure that is applicable to currency derivatives is 0.05% on carry forward trades and 0.025% on intra-day trades. The transaction cost involves service tax, stamp duty and SEBI turnover-fees.

A person may enter into currency futures trading with the objective of hedging and speculating. As retail traders, one can enter the market to benefit from day-to-day volatility. According to Vandana Bharti, Head of research, commodities, SMC, “Currently, the currency is moving in a band of 50-60 paise and the volumes are also increasing. Therefore, the small investors can benefit from it. Besides with the currency futures getting launched on MCX in October, one can even indulge in arbitraging.” Experts believe that traders who would like to pursue a high-risk-high-return strategy will find that currency futures are a very liquid and potentially rewarding market to be in, if they have the right analysis and view on currency movement. Investors should also consider diversifying their portfolio by adding currency to their current asset allocation by taking advantage of the 12-month contract facility. Given the dynamic financial situation globally, diversification will be the single best strategy for investors for a safer investment horizon.

Trading in currency derivatives brings a whole range of benefits for an investor. Currency futures' trading is a transparent mechanism wherein one receives contract notes for the trades done in one's account. Besides the rate

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and price are determined by the exchange and a person even has the option of verifying his/her trade on the exchange site, thereby leaving no scope for default.

Investors are not required to have any underlying exposure to trade in currency derivatives as in the case of an OTC market. As long as they are willing to pay margins, they can trade in currency futures. Commodity analysts believe that accessibility is also high because of the similarity with existing equity and commodity futures markets.

CONCLUSION

Thus, Currency Futures is transferable futures contract that specifies the price at which a specified currency can be bought or sold at a **future** date. A surge in volume and enormous growth has also taken place in the currency futures markets as institutions are accessing different venues of FX liquidity. A large number of exchanges, banks, dealers, exchange brokers and speculators are all getting ready to join in. In fact, India is getting into the game at the right time. World-over, exchange-traded currency derivatives are slowly eating into the traditional foreign exchange trading platforms, especially the spot and over-the-counter markets.

It is said that for those who have the ability to convert the local and globally available information into a directional price call on currency, there is no better market to trade in. The currency futures markets help benefit financially by analyzing such information. Research analysts suggest that in order to trade effectively and profitably in currency futures, an investor needs to strategize his/her investments. According to Vandana Bharti, "Since the currency futures are denominated in dollar and globally, the dollar is traded as commodity, one need to track the international commodity index while developing the outlook of rupee."

The government is expanding derivatives trading to help investors cope with widening fluctuations in rupee, which has traded at a decade high and a 17-month low during the past year. The coming time will tell the success of this new risk management tool in the Indian financial market.

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