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“CURRENCY AS A FUTURE INVESTMENT OPTION “

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ABSTRACT

Currency future is the latest and emerging trend in the market. After equity and commodity market, Currency future market is expected to grow because of low volatility in the prices of currency across the globe. There are many factors which affect the prices of currencies across the world. This paper involves the deep analysis of currency futures around the world. It will also help in suggesting various hedging strategies which could be used to protect the investors in the volatile market of currencies. This paper also aims at analysing the acceptability and preference of investors for currency futures. The research was done to analyse the rudimentary elements of currency market, its effect on exporters and importers and investors behaviour towards currency market .

Key words: Currency future, hedging strategy, investor behaviour.

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1.OBJECTIVES:

- To analyze the preference of currency futures as an investment option.
- To compare pros and cons of currency futures with other investment options.
- To highlight the factors influencing the investment decision of the investor.

2.INTRODUCTION

Currency future trading is currently offered by three institutions: MCX-SX (MCX Stock Exchange), NSE (National Stock Exchange), BSE (Bombay Stock Exchange).

CME – Chicago mercantile exchange is the oldest exchange which deals in currency future contracts. It started its operation in 1972. Today it offers more than 40 FOREX

future contracts and more than 30 options contract and all of which are traded electronically on the exchange. In India, currency future trading started on August, 2008. Today FOREX market of the globe has surpassed both equity market and commodity market in terms of volume traded.

Currency rates keep on changing constantly. It means value of one currency in terms of another currency is not fixed. Any change in the price of currency either shows its strength/appreciation or weakness/depreciation over the other currency. As currency rates keep on fluctuating constantly, so does its effects on many institutions, individuals, investors' etc. Currency rate fluctuations affect mainly

3. REVIEW OF LITERATURE:

Sarang VK, (2012) has analyzed whether introduction of currency future trading activities has increased the volatility of spot market or not and concluded with statically supporting data and literature reviews where its partially justified that trading in currency futures do contribute a volatility in spot market.

Tulsi Lingareddy, (2009) tries to find out the difference between future and forward market of currency derivatives in India. It tries to find out those factors which differentiate over the counter market (OTC market) from the exchange traded market. Accordingly interprets that future trading hasn't caused any significant difference in OTC (over the counter) forward volumes. The reason for being so is that OTC market is been used by hedgers with physical exposure while futures market is used for both arbitrage and speculation purpose.

Kuntara Pukthuanthong-Le, Richard M Levich and Lee R. Thomas, (2006) discussed the chances of profitable trade trend in foreign currencies. The methodology introduced was to collect data of future settlements on all major currencies, pre 1975 to mid 2006. All the currency data collected is taken from CME (Chicago mercantile exchange). It results that only YEN showed the substantial profit after 1995. The result shows that it is unprofitable to use trend trading in the major currencies today. However, this conclusion has not stopped currency trader from using the past data. But over the years, traders have started using more sophisticated technical models.

Alain Chaboud and Balke Lebaron, (1999) found a large correlation between daily trading volume in currency futures market and foreign exchange intervention by the Federal Reserve over the period 1997 -1996. The study uses intervention and trading volume data in the dollar-yen and dollar-mark markets. It ties to find out the impact of announced, secret and false intervention on the both above mentioned currencies. It shows that announced intervention has much stronger impact than secret intervention.

Shang Jin and Kim, (1997) “investigated the relation between large market participants and exchange rate movement. It suggests that position taken by large market participants is likely to contribute to an increase in the exchange rate volatility. It also shows that position taken by large participants does not help to forecast subsequent appreciation of the exchange rate. It also throws light on speculation by large participants and their impact on exchange rate volatility.

Kalpak k Bhore, (2008) “Currency Derivatives” talked about the rudimentary concepts of currency futures. The methodology used was the data collected from the sources like NSE, MCX-SX etc. It also talks about the importance of currency futures over other financial products. So, overall it talks about the all those important points which make currency futures as a preferred choice of investment for investors.

Neeraj Gambhir and Manoj Goel, (2003) talked about the evolution of FOREX derivative market in India. It also talks about the Rupee forward approach in Indian context over last couple of decades. It also says that Currency futures are now restricted not just only to exporter and Importer but also to the banks, corporate, FII etc. This journal also talks about the concept of cross currency future contract. So overall, this journal tries to throw some light on foreign exchange derivatives market of India.

Cheng, Ai-ru and Cheng, Yin-wong (2008) discussed the interaction between return, trading volume, and market depth in three currency futures market. The methodology used was to take data on returns, trading volume and open interests of British pound, Canadian Dollar and Japanese Yen currency futures contract traded on Chicago Mercantile Exchange. As per this journal, there are several types of information which drive the return, trading volume and open interests.

Malliaris A.G.2011 tried to give the glimpse of International FX market. It also distinguishes the various markets and FX products. It basically talks about cash, forward, futures and options currency market. It talks about the recent developments in currency market and role of emerging economies in currency market. It concludes by saying that currency markets are highly unpredictable despite being heavily observed.

Wan Mansor, and Wan Mahmood, talked about the inter market spill over effect in the non overlapping time zones. The data used in this journal consists of daily settlement foreign currency future prices for the German Mark and Japanese YEN. Overall, this paper examines the volatility transmission for two identical currency futures contract traded at two different time zones but linked with a mutual offset system.

4.RESEARCH METHODOLOGY -Descriptive Research was carried out to know the rudimentary elements of currency futures. **Exploratory Research** was carried out to analyze the investor’s perception towards currency futures. A sample of 50 people was taken to know their perception while doing currency trading.

Data Interpretation Tools:-Microsoft Excel SPSS and Microsoft Word

5.DATA INTERPRETATION AND ANALYSIS

Question: Please rank the following as the preferred choice for investing Money:

(1- Lowest, 7-Highest) (Note: No two choices carry same point)

S.No	Options	Rating
1.	Equity Market	
2.	Bank Fixed Deposits	
3.	Bonds, Debenture	
4.	Currency Market	
5.	Post Office Savings	
6.	Mutual Funds	
7.	Commodity Market	

Response:

Descriptive Statistics

	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance
Equity_market	50	6	1	7	297	5.94	1.346	1.813
Bank_Fixed_deposits	50	4	1	5	110	2.20	1.161	1.347
Bonds_debentures	50	5	1	6	124	2.48	1.282	1.642
Currency_Market	50	6	1	7	266	5.32	1.584	2.508
Post_Office_savings	50	5	1	6	141	2.82	1.335	1.783
Mutual_Funds	50	6	1	7	169	3.38	1.398	1.955
Commodity_Market	50	4	3	7	293	5.86	.948	.898
Valid N (listwise)	50							

Table 1.: Descriptive Statistics of various Investment options

Out of the 50 people interviewed, according to them the preferred choice of investment is Equity market followed by commodity market and currency market. the least preferred option for investment is Bank fixed deposits. Equity market is still the preferred choice for investing money despite its high risk and fluctuations. Mutual funds and post office savings are still considered to be better than bank fixed deposits

Question: What is your risk appetite of investments?

¶ Very Low

¶ Low

¶ Moderate

¶ High

¶ Very High

Response:

Risk_Appetite

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very Low	3	5.6	6.0	6.0
	Low	12	22.2	24.0	30.0
	Moderate	19	35.2	38.0	68.0
	High	3	5.6	6.0	74.0
	Very High	13	24.1	26.0	100.0
	Total	50	92.6	100.0	
Missing	System	4	7.4		
Total		54	100.0		

Table 2.: Risk Appetite of Investors

Out of the 50 people surveyed, 19 people or almost 40 percent of the people have moderate appetite for risk. 13 people out of 50 people have very high appetite for risk followed by 12 people who have low appetite for risk. Almost 70 percent of the people have either moderate appetite for risk or less than the same.

Question: How important are the following services while choosing FOREX service provider?

Choices	Very Important	Important	Neutral	Unimportant	Highly Unimportant
Brokerage cost					
Brand of the broking firm					
Regular tips from the broking firm					
Opening Demat account charges					
Allocated account/relationship manager					

Response:

Descriptive Statistics

	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance
Service_Brokerage_cost	50	3	2	5	185	3.70	.931	.867
Service_brand_of_the_firm	50	3	2	5	210	4.20	.833	.694
Service_Regularity_tips	50	4	1	5	174	3.48	1.216	1.479
Service_opening_demmat_charges	50	4	1	5	153	3.06	1.185	1.404
Service_allocated_manager	50	4	1	5	222	4.44	.951	.904
Valid (listwise)	N 50							

Table 3.: descriptive statistics on services

When 50 people were asked to rate the Importance of above mentioned factors while choosing a FOREX service provider, the allotment of relationship manager or account manager is considered to be the paramount factor while choosing a FOREX service provider followed by the brand of the broking firm and brokerage cost which incurs while trading currencies. Opening DEMAT account charges and regular tips from the broking firms are considered to be the least important factors while choosing a FOREX service provider.

Question: Do you follow technical charts while doing currency trading?

☐ Yes

☐ No

Response:

Technical_charts

	Frequency	Percent	Valid Percent	Cumulative Percent
Valid Yes	34	63.0	68.0	68.0
No	16	29.6	32.0	100.0
Total	50	92.6	100.0	
Missing System	4	7.4		
Total	54	100.0		

Table 4.1: Technical charts followers

Out of the 50 people interviewed, 34 people follow technical charts while doing currency trading and 16 people don't follow technical charts while doing currency

trading. It means almost 70 percent of the people follow technical charts while doing currency trading.

Question: Please rank the following currency pairs as a preferred Investment option:

(1- Lowest, 4- Highest) (Note: No two choices carry same point)

S.No	Choices	Rating
1.	USD-INR	
2.	GBP-INR	
3.	EUR-INR	
4.	JPY-INR	

Response:

Descriptive Statistics

	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance
Rank_USDINR	50	3	1	4	177	3.54	.862	.743
Rank_GBPINR	50	2	1	3	91	1.82	.596	.355
Rank_EURINR	50	2	2	4	156	3.12	.558	.312
Rank_JPYINR	50	3	1	4	76	1.52	.863	.744
Valid (listwise)	N 50							

Table 5.: Descriptive statistics on currency pair preference

Out of the 50 people surveyed, USD is the preferred choice of Investors for currency trading followed by EURO. Yen is the least choice of Investors for currency trading followed by British pound.

Question: Rate the following reasons for trading currency:

(1- Lowest, 5- Highest) (Note: No two choices carry same point)

S.No	Reasons	Rating
1.	24 hours market availability	
2.	Low initial margin requirements	
3.	High returns	
4.	Very Low fluctuations in the prices of	

	currencies / Low Risk associated with currencies	
5.	Forex market is better than equity market and commodity market.	

Response:

Descriptive Statistics

	N	Range	Minimum	Maximum	Sum	Mean	Std. Deviation	Variance
Rank_24_market_availability	50	4	1	5	89	1.78	1.200	1.440
Rank_low_initial_margins	50	4	1	5	144	2.88	1.466	2.149
Rank_high_returns	50	4	1	5	155	3.10	1.199	1.439
Rank_very_low_fluctuations	50	4	1	5	171	3.42	1.197	1.432
Rank_Forex_market_is_better	50	4	1	5	191	3.82	1.155	1.334
Valid N (listwise)	50							

Table 6.: Descriptive statistics on currency futures trading

Very low fluctuation in the prices of currencies is the second important reason for trading in currencies followed by high returns in currency market. 24 hours market availability of currency market is the least important reason for currency trading. High returns in currency trading and low initial margins score at par and could be considered equally good options in currency trading.

Correlations:

Correlations

		Equity_market	Bank_Fixed_deposits	Bonds_debentures	Currency_Market	Post_Office_savings	Mutual_Funds	Commodity_Market
Equity_market	Pearson Correlation	1	-.449**	-.326*	.019	-.188	-.064	-.103
	Sig. (2-tailed)		.001	.021	.897	.192	.661	.478
	N	50	50	50	50	50	50	50

Bank_Fixe d_deposits	Pearson Correlation	-.449**	1	.071	-.135	-.016	-.262	-.048
	Sig. (2- tailed)	.001		.622	.348	.913	.066	.739
	N	50	50	50	50	50	50	50
Bonds_ debentures	Pearson Correlation	-.326*	.071	1	-.037	-.151	-.241	-.347*
	Sig. (2- tailed)	.021	.622		.799	.295	.092	.014
	N	50	50	50	50	50	50	50
Currency_ Market	Pearson Correlation	.019	-.135	-.037	1	-.590**	-.342*	-.146
	Sig. (2- tailed)	.897	.348	.799		.000	.015	.311
	N	50	50	50	50	50	50	50
Post_Offic e_savings	Pearson Correlation	-.188	-.016	-.151	-.590**	1	-.017	.093
	Sig. (2- tailed)	.192	.913	.295	.000		.905	.523
	N	50	50	50	50	50	50	50
Mutual_ Funds	Pearson Correlation	-.064	-.262	-.241	-.342*	-.017	1	-.144
	Sig. (2- tailed)	.661	.066	.092	.015	.905		.319
	N	50	50	50	50	50	50	50
Commodit y_Market	Pearson Correlation	-.103	-.048	-.347*	-.146	.093	-.144	1
	Sig. (2- tailed)	.478	.739	.014	.311	.523	.319	
	N	50	50	50	50	50	50	50

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Table 7: Correlation on various investment options

There is a high degree of co relation between bank fixed deposits and bond and debentures. It means those who prefer bank fixed deposits as a preferred investment option; they also prefer bonds and debentures also as the preferred choice for investments. There is high degree of no correlation between post office savings and

currency market. It means they are not preferred simultaneously by investors as an investment option.

Correlations

		Rank_USDIN R	Rank_GBPIN R	Rank_EURIN R	Rank_JPYIN R
Rank_USDIN R	Pearson Correlation	1	-.204	-.095	-.797**
	Sig. (2-tailed)		.155	.512	.000
	N	50	50	50	50
Rank_GBPIN R	Pearson Correlation	-.204	1	-.547**	-.132
	Sig. (2-tailed)	.155		.000	.361
	N	50	50	50	50
Rank_EURIN R	Pearson Correlation	-.095	-.547**	1	-.175
	Sig. (2-tailed)	.512	.000		.225
	N	50	50	50	50
Rank_JPYIN R	Pearson Correlation	-.797**	-.132	-.175	1
	Sig. (2-tailed)	.000	.361	.225	
	N	50	50	50	50

** . Correlation is significant at the 0.01 level (2-tailed).

Table 9.: Correlation on various currency options

There is a high degree of correlation between USD and EURO, Pound and Yen also share a good amount of correlation between them. It means USD and EURO are preferred equally like Pound and Yen does.

Cross Tab Analysis

Risk_Appetite * Technical_charts Crosstabulation

Count

	Technical_charts		Total
	Yes	No	
Risk_Appetite Very Low	3	0	3
Low	9	3	12
Moderate	15	4	19
High	2	1	3
Very High	5	8	13
Total	34	16	50

Table 10: Cross tab on risk appetitive and technical charts

Irrespective of the risk appetite of a person, most of the people do follow technical charts. It is observed that only in a case where the people have very high risk appetite, the proportion of the people who do not follow technical charts while doing currency is more than those who do follow technical charts while doing currency trading. The same is not the case in others also. In every other case the proportion of the people who follow technical charts while doing currency trading is more than who do not follow technical charts while doing currency trading.

6.RECOMMENDATIONS AND CONCLUSION

Equity market is still considered to be the most preferred market for investors for investing their money followed by commodity market and currency market.

People prefer trading USD against INR followed by EURO.

Allocated relationship manager or account manager plays a very important role while choosing a broking firm for currency trading followed by the brand of the broking firm. So it can be said that, a good allocated relationship manager can do wonders for both the clients and broking firm in terms of generating clients, giving profits to its broking firm and clients etc.

Most of the people do follow technical charts while doing currency trading. So every broking form which is involved in providing services for currency trading should put more emphasis in improving its technical charts and knowledge for its customers or clients.

Despite giving first preference to equity market, people who trade in currency market have found that currency market is better than both equity market and commodity market. So it can be said that, currency market could be the flair of future for investors for investing their money.

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