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A STUDY ON CURRENCY DERIVATIVES IN ICICI BANK

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Abstract
Now a day's all the technological changes are being made in the competitive environment. In all fields computerization as taken place. In case of stock exchange also they go for on line trading. So the investors have to be aware of online trading procedure, in order to know the minute-to-minute changes in trading in stoic exchanges.The main aim of this study to make the investor aware of the online trading procedures, and the disadvantages from it . When the investor come to know the changes in the trading in stock exchanges, then only he can sell or buy the securities which give high return and in order to minimize the risk. The online trading system displays the overall changes in the world of trading per second. So the knowledge of online trading is must for every investor.

The online system displays the graphs of senses, Nifty, and the risk and return of a security which the investor need to invest and displays the profile of the company, dividend declare by that company. The main advantage to the investor is that he can buy and sells shares by sitting at home instead of calling the broker and ordering him to buy or sell.

Key words: Currency, Derivatives, Risk Management.

Introduction
Each country has its own currency through which both national and international transactions are performed. All the international business transactions involve an exchange of one currency for another. This variability in value of assets or liabilities or cash flows is referred to exchange rate risk. Since the fixed exchange rate system has been fallen in the early 1970s, specifically in developed countries, the currency risk has become substantial for many business firms that was the reason behind development of currency derivatives. There are many risks which are influenced by factors external to the business and therefore suitable mechanisms to manage and reduce such risks need to be adopted. One of the modern day solutions to manage financial risks is 'hedging'. The project is all about what are the hedging instruments (Currency Derivatives) available in India and how the business corporations are using currency derivatives as a risk management tool.

Scope of the Study
- To know what is foreign exchange and what are the various foreign exchange
- Services.
- To know how the transactions related to foreign exchange volatility carried out.
- To have a brief knowledge about various foreign currencies and their exchange rates compare to other nations currencies.

Statistical tools
Mean is used to find the average of operating income.

Review of Literature
In the Indian context the Securities Contracts (Regulation) Act, 1956 [SC(R)A] defines "Derivative" to include-
1. A security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security.
2. A contract which derives its value from the prices, or index of prices, of underlying securities.

DETAILS OF CONTRACT SPECIFICATION OF USD/INR FUTURES

Symbol	USDINR
Instrument Type	FUTCUR
Unit of trading	1 (1 unit denotes 1000 USD)
Underlying	The exchange rate in Indian Rupees for a US Dollar
Tick size	Rs.0.25 paise or INR 0.0025
Trading hours	Monday to Friday **9:00 a.m. to 5:00 p.m**
Contract trading cycle	12 month trading cycle.
Last trading day	Two working days prior to the last business day of the expiry month at 12 noon.
Final settlement day	Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for Interbank Settlements in Mumbai.
Quantity Freeze	Above 10,000
Base price	Theoretical price on the 1st day of the contract. On all other days, DSP of the contract
Price operating range	**Tenure up to 6 months** +\- 3% of base price **Tenure more than 6 months** +\- 5% of base price
Position limits	**Clients** Higher of 6% of total open interest **or** USD 10 million **Trading members** Higher of 15% of the total open interest **or** USD 50 million **Banks** Higher of 15% of total open interest **or** USD 100 Million
Minimum initial margin	1.75% on day 1, 1% thereafter
Extreme loss margin	1% of MTM value of open position.
Calendar spreads	Minimum Rs. 250/- per contract for all months of spread
Settlement	**Daily settlement :** T + 1 **Final settlement :** T + 2
Mode of settlement	Cash settled in Indian Rupees
Daily settlement price (DSP)	Calculated on the basis of the last half an hour weighted average price
Final settlement price (FSP)	RBI reference rate

NSE trades Currency Derivatives contracts having near 12 calendar month expiry cycles. All contracts expire two working days prior to the last working day of every calendar month (subject to holiday calendars). This is also the last trading day for the expiring contract. The contract would cease to trade at 12:00 noon on the last trading day. A new contract with 12th month expiry would be introduced immediately ensuring availability of 12 monthly contracts for trading at any point.

The Instrument type: FUTCUR refers to 'Futures contract on currency' and Contract symbol: USDINR denotes a currency pair of 'US Dollars – Indian Rupee'. Each futures contract has a separate limit order book. All passive orders are stacked in the system in terms of price-time priority and trades take place at the passive order price (order which has come earlier and residing in the system). The best buy order for a given futures contract will be the order to buy at the highest price whereas the best sell order will be the order to sell at the lowest price.

Objectives of the Project

The basic idea behind undertaking Currency Derivatives project is to gain knowledge about currency market.

- To study different currency derivative products.
- To understand the concept of currency derivatives and the trading of currency derivatives

Methodology

All the data and information is collected by me from different sources for the preparation of this report. To prepare this report, I have adopted following methodology.

Primary data

- The primary data has been collected from experts, officials and employees working in ICICI LTD.

Secondary data

- For secondary data, I have use internet. Links are given for the same.

Futures derivatives
USDINR(Future currency(FUTCUR))

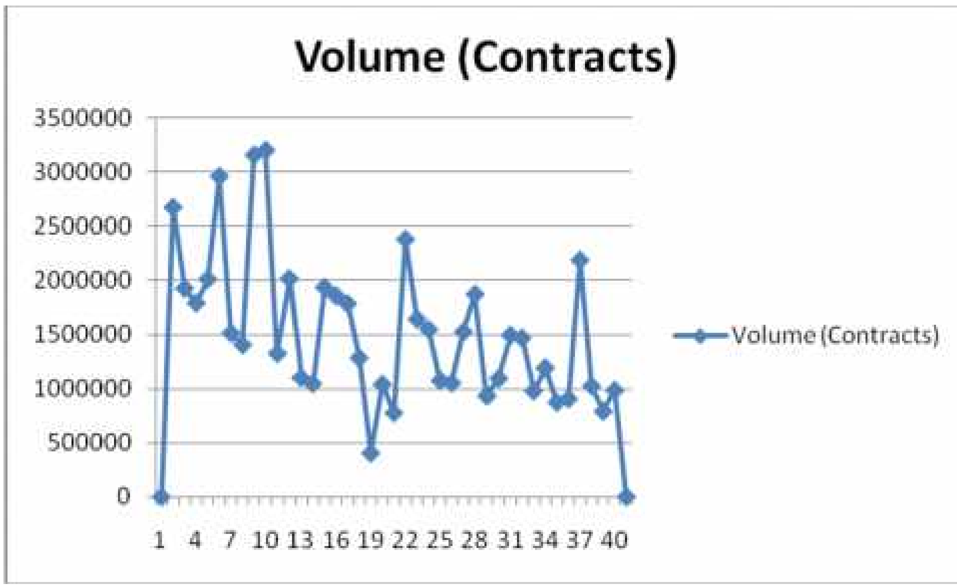
USDINR				
Trade Date	**Instrument**	**Volume (Contracts)**	**Turnover * (₹ crs)**	**OI**
25-Jan-2017	FUTCUR	2672379	18,232.16	46,26,217
24-Jan-2017	FUTCUR	1925725	13,063.89	44,01,673
23-Jan-2017	FUTCUR	1789586	12,137.97	43,15,357
20-Jan-2017	FUTCUR	2011536	13,692.80	42,28,319
19-Jan-2017	FUTCUR	2958843	20,154.22	40,03,430
18-Jan-2017	FUTCUR	1511303	10,238.67	36,38,711
17-Jan-2017	FUTCUR	1403684	9,510.17	36,00,208
16-Jan-2017	FUTCUR	3156324	21,348.07	36,53,965
13-Jan-2017	FUTCUR	3199627	21,538.55	31,39,495
12-Jan-2017	FUTCUR	1322451	8,863.87	27,13,409
11-Jan-2017	FUTCUR	2016690	13,523.44	25,97,208
10-Jan-2017	FUTCUR	1102841	7,387.41	25,10,646
09-Jan-2017	FUTCUR	1047409	7,005.80	25,17,066
06-Jan-2017	FUTCUR	1934974	12,974.19	26,17,620
05-Jan-2017	FUTCUR	1857351	12,444.82	24,89,848

04-Jan-2017	FUTCUR	1783381	11,915.80	24,80,436
03-Jan-2017	FUTCUR	1282113	8,558.22	22,48,879
02-Jan-2017	FUTCUR	405115	2,692.30	20,49,512
28-Dec-2016	FUTCUR	1042031	6,928.96	21,21,387

Operating Income = X/N

$$= \frac{107,951,920}{39}$$

=2,767,997.95



Interpretation
I used mean formula to calculate operating income.
The Volume of the currency future market was increasing every day and the market was depending on Indian trade and tariff and also depends on international trades because dollar was accepted globally for the trade in the world. This prevents an opportunity for arbitrage. If the rates did not differ, there would be a profit difference in the currencies. That is, investing in one currency for a year and then selling it should be the same profit or loss as setting up a forward contract at the forward rate one year in the future. Investing in one currency would be more profitable than investing in the other.
The value of the Dollar in the present rate is 67.73 ₹ and the trade volume is 3536874.

Findings
1. There is not much change in percentage of operating profit.
2. As currency of other country is increased or decreased there exists volatility in net operating income.
3. As foreign exchange rate is sensitive phenomena that affect the profitability of the company, the company should make study of the impact of exchange rate volatility on its profitability in different foreign markets.

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Suggestions

- Foreign exchange facilities can be availed by customers at any of our branches transacting in Foreign Exchange. You can buy FCY Cash, TC's and FCY DD's from any our branch and also en cash your TC's and Cash at our branches.
- Foreign Exchange can be availed against payments by Cash, Cheque or Pay Order/ Demand Draft. A maximum of Rs. 49,999/- (as per Indian Tax Laws) will be accepted in cash and any amount above Rs. 49,999/-, against a Pay Order or Cheque after clearance of the same. You need to carry the required Documentary Proof for issuance of Foreign Exchange.

Conclusion

Not only big business houses, exporters and importers use this but individuals who are interested and having knowledge about forex market they can also invest in currency future. At Marwadi Shares also many individual investors are investing in currency futures.

Exchange between USD-INR markets in India is very big and along with it other currency contracts of Euro, Pound and Japanese Yen are in the market and attracting the investors which is the reason behind higher growth rate of currency futures in India.

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