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Comparative Study of Currency Derivatives in Selected Indian Banks

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Abstract – Risk is as old as culture. Risk is remarkable in light of the fact that it cannot be kill, yet oversaw. Globalization has gone to the interdependency of countries, along these lines, rising introduction to conversion scale instability. The instability of swapping scale offer approach to currency risk in all exchanges in a foreign currency. The most critical approach to deal with the currency risk is the utilization of currency derivatives. This paper clarifies currency derivatives as instruments to moderate the currency risk. The paper has been isolate into five sections. The initial segment manages fundamental presentation of Currency derivatives. The second part surveys some literature on currency derivatives. The third part manages growth of currency derivatives in Global just as Domestic level. The fourth part manages utilization of Currency Derivatives in HDFC bank and Bank of Baroda. The fifth part is investigation of information of the utilization of currency derivatives. The last part is the conclusions on it. The role of subsidiary for risk going for broke management has expanded significantly as of late. The main aim of this paper is to analysis the currency derivatives on banks. This proposal centers on currency derivatives market in India. The primary subject of this theory is to learn about the currency derivatives market in India and its strategies systems and operations. It is additionally breaking down the growth of currency future market, currency alternative market in India.

Keywords – Currency Derivatives, HDFC Bank, BOB Bank, Market, Global, Domestic

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1. INTRODUCTION

With the development of currency derivatives, a member with a foreign exchange presentation can discover basic technique to get data over rates and future market prospects for the monetary standards traded. Advantage of trading in the currency futures segment are enormous - from accessibility to value lucidity and standardization, which because of over-the-counter trade is completely dissimilar. To the extent, ease is concerned; currency derivatives offer an online electronic trading stage instead of the interbank forex market. As far as value transparency, an internet trading continuous value access to all market participants, while in the OTC market one needs to depend upon the rates offered by the bank. In India, currency Derivatives have turned out as a prominent apparatus to support currency risks. In any case, it is stunning to see that just 10 percent of volumes really originate from the hedgers. The motivation behind why hedgers are as of now gauging the currency market is that in India, the customary propensity is to extricate rates from the OTC markets and the statements by the banks are considers as last. In any case, a noteworthy drawback if there should arise an occurrence of over-the-counter trade is that diverse rates are offered to the bank customers relying on their affiliation with the bank and the volume of business that a customer offers to the bank. The arrangement of the OTC market is not clear and makes it troublesome for little and medium enterprises alongside retail financial specialists to make a passage and have an effective trade. It is presently much less demanding for a little and medium undertaking to venture in the foreign exchange market with clarity and transparency.

Currency derivatives are money related contracts between the purchaser and seller including the exchange of two monetary standards at a future date, and at a stipulated rate. Currency Derivatives Trading is reasonable for those keen on diminishing their foreign exchange rate risk. Currency Derivatives in India give a heap of opportunities to various players. Accept this open door to effectively deal with your international exchange rate risk with currency trading in India.

1.1 Types of Currency Derivatives

► **Currency forwards**: A currency forward is an agreement between two parties where both the parties consented to purchase/sell a fundamental resource at a predetermined cost in future. This includes future payment or receivable an obscure foreign exchange rate.

- **Currency futures:** A futures contract is a standardized contract, traded on an exchange, to purchase or sell a certain basic resource or an instrument at a certain date in the future, at a predefined cost. At the point when the hidden is an exchange rate, the agreement named a "currency futures contract".

- **Currency options:** A currency alternative is an agreement giving the choice purchaser (the purchaser) the right, however not the commitment, to purchase or sell a fixed amount of foreign exchange at a fixed cost for each unit for a predefined time.

- **Currency swaps:** A currency swap is an agreement between two parties to exchange money streams in two unique currencies. The swap comprises of interest rate differentials between currencies.

1.2 Use of Currency Derivatives

- **Hedging:** Presently benefit assurance against foreign exchange exposures and limit your losses by taking proper positions through hedging with the assistance of currency derivatives.

- **Trading:** With currency choices and futures, you would now be able to trade on momentary fluctuations in markets by taking perspective on directional movement.

- **Arbitrage:** Advantage from currency exchange rates in various markets and diverse exchanges with currency derivatives trading.

- **Advantage:** With currency futures trading and choices trading, you just need to pay a negligible edge of the all-out value, and not the full traded value.

2. LITERATURE REVIEW

Dr. E.V.P.A.S. Pallavi (2016) - The presentation of currency derivatives in India has passed an adventure of right around eight years and numerous progressions have been implement in the trading framework in such manner. The fundamental subject of this paper is to evaluate the development of currency derivatives in India. To consider the growth of the currency derivatives, the quantity of agreements traded, trading volume and open interest at NSE are examine. The currency derivatives have gotten a decent reaction from the financial specialists just as the hedgers. Right now, just inhabitant Indians (counting people, organizations and money related establishments) can trade in the four currency sets accessible in the neighborhood market-dollar/rupee, pound/rupee, euro/rupee and yen/rupee. Normal turnover of these instruments in the National Stock Exchange is eight times higher than a year sooner. The normal day-by-day turnover of currency futures and currency alternatives is Rs 16,778.20 crore in 2015. The risk included is nearly low for this situation and currency derivatives has turned out to be a decent apparatus for hedging the risk engaged with the currency of a nation (currency risk). It is trusted that the currency derivatives market will grow quicker, it will be a decent decision for all the market participants soon, and it will discover its way in the Indian economy.

Kamau, Inanga and Rwegasira (2014) - investigated the degree to which the measure of multilateral banks (MBs) impacts the utilization of currency derivatives to oversee currency risk. An observational speculation in regards to the relationship of the span of MBs to their use of currency derivatives was tried utilizing relapse, connection and examination of fluctuation. The outcomes demonstrate that there is a noteworthy positive connection between size (as estimated by complete resources) of MBs and the all-out key amounts of currency derivatives utilized. These outcomes suggest that MBs are getting a charge out of economies of scale and scope in utilizing currency derivatives in overseeing currency risk.

Pandey (2012) - expressed that currency futures are the immense need for the creating economies to raise international space and productive currency management framework for the economy. Currency subsidiary gives better strong and gauging of genuine and suggested instability numbers. It additionally helps in the value revelation in long run and make treasury operations suitable for Indian banks, multinationals exporters and shippers. High total assets people and medium size substances contribute greater part of the trade in currency futures. Academicians identified with recording and revealing of currency derivatives in Indian setting could lead a further research in currency futures.

Kang and Lee (2011) - led an exact investigation of the exchange rate presentation of 392 Korean firms by utilizing changes in the exchange rate as well as the standard deviation of the exchange rate. The experimental outcomes because of utilizing the standard deviation of exchange rates suggest that, the quantity of firms indicating huge exchange rate introduction has been moderately expanding. Exchange rate presentation is almost certain for fare arranged to assemble enterprises than for nonmanufacturing businesses. Extensive firms utilizing hedging techniques are probably going to demonstrate a low level of exchange rate presentation.

Dhananjay Sahu (2012) - analyzed the effect of currency futures on exchange rate unpredictability of EURO after the presentation of currency futures trading in India. He reasoned that the presentation of currency futures trading had no effect on the spot exchange rate instability of the foreign exchange market in India. Further, the outcomes are likewise characteristic of the way that the significance of ongoing news on spot market unpredictability had expanded and the industriousness impact of old news had declined with the presentation of currency futures trading.

3. OBJECTIVES OF THE STUDY

1. To know the growth of Currency Derivatives in global as well as in Domestic market.

2. To compare the trend of Currency Derivatives in HDFC bank and Bank of Baroda.

3. To Evaluate the Volume of the Currency Derivatives.

4. RESEARCH METHODOLOGY

The investigation is orderly in nature. In this study, endeavors have done to discover the growth of Currency Derivatives in global just as in Domestic market and pattern of Currency Derivatives in HDFC bank and Bank of Baroda.

- **Sources of data collection**

The examination depends on secondary data which has been gathered from Indian Banking Association(IBA), Reserve Bank of India, Annual Reports of the banks and Capita-line Plus database. Information is gather for the money related year 2010-2017.

- **Statistical tools used in this study**

Independent t-test has been use to assess the significance of results. SPSS 20 version was use for analysis.

5. ANALYSIS AND RESULT

5.1 Development of Currency Derivatives in Global Market

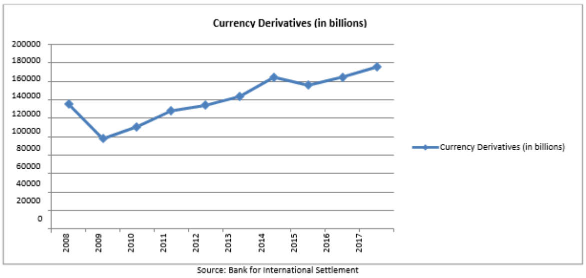

Figure 1: Growth of Global Currency Derivatives Market

The figure 1 the growth of Currency derivatives in global market. The figure indicates Rs. 135453 billion of every 2008, which diminished to Rs. 97913 billion of every 2009. From the year 2010, the market of Currency Derivatives bounced back to its performance with Rs. 110921 billion and proceeded with the hiked performance from 2011 till 2017 with the amount of Rs. 128047 billion of every 2012, Rs. 1644572 billion out of 2014 and Rs. 175546 billion out of 2017.

5.2 Development of Currency Derivatives Market in India

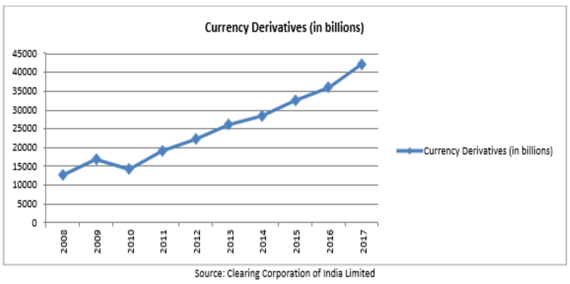

Figure 2: Growth of Indian Currency Derivatives Market

The figure 2 uncovers the growth of Currency Derivatives of in India. From the marginal performance of Rs 12727 billion out of 2008 the hike proceeded till 2017 for example Rs. 16937 billion of every 2009, Rs 22200 billion out of 2012 and in the year 2017 the hike kept on being substantially a huge figure of Rs. 42226 billion.

5.3 Trend of Currency Derivatives in HDFC Bank and BOB

The paper surveys the growth of Currency Derivatives in HDFC bank and BOB and ascertains the elements, which influence the utilization of Currency Derivatives. Study about the role of Currency Derivatives in risk management and its impact on the performance of the bank were analyze. The study additionally led on bank's foreign exchange rate management decision through Currency Derivatives.

5.4 Volume of the Currency Derivatives

The notional principal amount, characterized as the amount of the advantages used to dissect payments made on the Currency Derivatives instrument taken into portrayal to study the use and example of Currency Derivatives. Forbidden, graphical introduction and descriptive statistics technique clarifies the utilization of Currency Derivatives over the period of study for both the banks. To study whether there exist any critical contrasts between the utilization of Currency Derivatives in HDFC bank and BOB, independent example T-test was use.

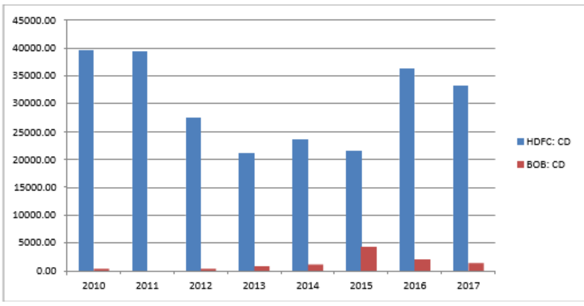

Figure 3: Volume of Currency Derivatives in HDFC Bank and Bob

Figure 3 presents the volume and growth of Currency Derivatives of HDFC and BOB. In HDFC Bank, Currency Derivatives was amount to Rs 39559.63 Cr the hike saw in the year 2011 amounting to Rs. 39357.45 Cr. The here and there pattern was appeared from the year 2012 to 2015 for example Rs. 27405.51Cr, Rs. 21171.27 Cr., Rs. 23696.17 Cr and Rs. 21534.91Cr separately. Again in 2016 and 2017the HDFC is bounced back in its performance i.e., Rs. 36309.52 Cr. what is more, Rs33156.08 Cr. individually.

In BOB, in the year 2010 the figure was Rs. 401.07 Cr. The year 2011 appeared of about 93.14%-diminished value being use of Currency Derivatives for example Rs. 53.32 Cr. From the year 2012 to 2017, the utilization of Currency Derivatives observed to be in developing movement of Rs. 422.78 Cr, Rs. 872.87 Cr, Rs. 1194.15 Cr. also, Rs4304.80 Cr. From there on, there was a downward inclination established in the year 2016 and 2017 for example Rs. 2096.94 Cr. furthermore, Rs. 1393.94 Cr.

Table 1: Descriptive Statistics for Currency Derivatives in BOB and HDFC Banks

	HDFC	BOB
Mean	30273.82	1342.48
Std. Deviation	7784.54	1361.92
Coefficient of Variance	25.71	101.45
Skewness	.026	1.701
Kurtosis	-2.073	3.236

From the table 1, it is evident that normal of the utilization of Currency Derivatives of HDFC observed to be Rs.30273.82 Cr. that is more than Currency Derivatives mean value of BOB, which is check to be Rs. 1342.48 Cr. The Coefficient of Variance is seem to be higher in BOB when contrasted with HDFC, which checks to be 101.45 and 25.71 separately. This plainly demonstrates in BOB, the mean value is generally lower yet the utilization of Currency Derivatives is exceptionally scattered. As, the more dispersed use was towards the correct hand side of the mean, the asymmetric in the distribution of utilization of Currency Derivatives has found. Positive skewness coefficients of.026 in HDFC and 1.701 in BOB delineate it. The data is decidedly skew meaning that the normal utilization of Currency Derivatives was lesser than the volume of Currency Derivatives for different years in HDFC Bank. In BOB additionally, the utilization of Currency Derivatives was emphatically skewed signifies that the normal use was lesser than the most incessant volume of Currency Derivatives. The peakness of data in HDFC is beneath the typical as the majority of years had indicated lesser peakness in their utilization than ordinary curve as the data had platykurtic (k<3) nature of distribution pattern. The curve of BOB demonstrates leptokurtic as the curve is more peaked than the ordinary curve.

The above descriptive statistics moreover upheld by a near analysis, where an exertion was made to study if there exists any huge distinction between the utilization of Currency Derivatives in HDFC bank and BOB. Independent example t-test was utilize to elucidate the utilization and pattern of Currency Derivatives in HDFC bank and BOB. The speculation made were as per the following:

Ho_1: There is no significant difference between the use of Currency Derivatives in HDFC bank and BOB.

Ha_1: There is significant difference between the use of Currency Derivatives in HDFC bank and BOB

Table 2: Independent Sample T-Test for Currency Derivatives in HDFC Bank and Bob

	Levene's Test for Equality of Variances		t-test for Equality of Means		
	F	Sig.	T	df	Sig,(2-tailed)
Equal variances assumed	33.509	0.000	10.355	14	0.000
*5% level of significance					

Table 2 represents to the independent example t-test; the value of the two-followed significance is under 0.05, appearing there is a huge distinction in HDFC bank and BOB about the utilization of Currency Derivatives. Measure up to difference however not expected, t-test statistics was utilize for evaluating the invalid theory of equality of methods. The result from the analysis called attention to that there is a huge contrast between HDFC bank and BOB on the utilization of Currency Derivatives. The test outcome gives the t value of 10.355 with 14 degree of opportunity. The comparing two followed p value is.000, under 0.05, hence, the invalid theory was rejected which implies that the example mean seems significantly not the same as the hypothesized value and the average of Currency Derivatives use in HDFC bank was not same as the average of Currency Derivatives use in BOB. At 0.01 significance level, additionally, the theory is reject, as the p value is under 0.01. This implies at 1% level of significance the average of the Currency Derivatives in two banks are not the equivalent.

CONCLUSION

Financial framework everywhere throughout the world is going leading revolution. The recession that particular, the globe in 2008 accelerated the degree of currency and interest risk introduction to the firms and financial institutions. The firms and financial institutions that are progressively inclined to interest rate and exchange rate instability needs exceptional attention to derivatives instruments so as to get from the owes of the global financial emergency. It ought to be noticed that the post-recession period however being presented to risk, has full opportunities that can be procured utilizing legitimate hypothesis strategies. Time requires a change from defensive risk management strategies to hostile risk management strategies and go for risk relief through current instruments like derivatives instruments. Currency futures and choices traded under exchange traded and over – the – counter. The growth in terms of volumes and participants in the Exchange Traded Currency Derivative Segment would improve the procedure of digestion different global and domestic monetary data into the markets while it finds its exchange rates. Augmentation of trading hours would likewise help support in the exchange traded currency derivatives markets to develop in terms of reflecting data into markets and along these lines become productive in their value discovery process, besides staying as the practical market for participants.

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