

## CONTENTS

	Page No.
<b>Declaration</b>	<b>I</b>
<b>Acknowledgements</b>	<b>II</b>
<b>Assumptions and conventions</b>	<b>III</b>
<b>Acronyms, abbreviations and symbols used</b>	<b>IV</b>
<b>Contents</b>	<b>VII</b>
<b>List of tables</b>	<b>XV</b>
<b>Executive Summary</b>	<b>XVII</b>
<b>Chapter 1 – Introduction</b>	<b>1</b>
1.1 Introduction	1
1.2 Currency Derivatives in India	4
1.3 Exchange-traded Currency Derivatives (Futures and Options) in India	4
1.4 NSE's Trading and Clearing Mechanism for Currency Futures	7
1.5 Rationale for the study	8
<b>Chapter 2 – Literature Review</b>	<b>9</b>
2.1 Brief history of exchange-traded Derivatives	9
2.2 Derivatives in India	9
2.3 Types of participants	10
2.4 Terminology in the Foreign Currency Markets	12
2.5 Pricing of Currency Forwards	13
2.6 Arbitrage Mechanism	14
2.7 Non Deliverable Forward (NDF)	17
2.8 Strategies for hedging trade related foreign exposure in India	18
2.9 Exotic Options	22
2.10 Report of RBI Internal Working Group for introducing Currency Futures in India	23

2.11 Highlights of the regulatory framework concerning the currency derivatives in India	24
2.12 Literature review of extant studies related to currency derivatives	27
<b>Chapter 3 – Research Methodology</b>	<b>36</b>
3.1 Objective	36
3.2 Methodology	36
3.3 Hypotheses Formulation	40
3.4 Data Collection	43
3.5 Data Analysis	47
<b>Chapter 4 – Data Analysis</b>	<b>48</b>
4.1 Test of Hypotheses	48
4.2 Futures versus Forwards (US\$ receivable - exporter)	48
4.3 Options versus Forwards (US\$ receivable - exporter)	49
4.4 Futures versus Forwards (US\$ payable - importer)	51
4.5 Options versus Forwards (US\$ payable - importer)	52
4.6 Futures versus Forwards (Euro receivable - exporter)	54
4.7 Options versus Futures (US\$ receivable - exporter)	55
4.8 Options versus Futures (US\$ payable - importer)	57
4.9 Test of Proportion - Futures versus Forwards (US\$ receivable – exporter)	59
4.10 Test of Proportion - Options versus Forwards (US\$ receivable – exporter)	60
4.11 Test of Proportion - Futures versus Forwards (US\$ payable – importer)	61
4.12 Test of Proportion - Futures versus Forwards (Euro receivable – exporter)	62
4.13 Summary of the Test Statistics	63

<b>Chapter 5 – Findings, Conclusions and Recommendations</b>	<b>66</b>
5.1 Implications for Exporters with US\$ or Euro receivables	66
5.2 Implications for Importers with US\$ payables	67
5.3 Test of Proportion: Export receivables	68
5.4 Futures versus forward contracts for US\$ receivables	68
5.5 Put Option versus forward contracts for US\$ receivables	68
5.6 Futures versus forward contracts for Euro receivables	69
5.7 Futures versus Forward contracts for US\$ payable	69
5.8 Summary of Performance	70
5.9 Recommendations	71
 <b>Chapter 6 – Limitations of the Study and Directions for Future Research</b>	 <b>72</b>
6.1 Limitations	72
6.2 Directions for Future research	73
6.3 Concluding note	75
 <b>Bibliography</b>	 <b>73</b>
 <b>Appendix-1 Data on Forward Rates</b>	 <b>76</b>
Table 1A.1 Data on Forward rates collected from Exporter (Code: Cap-1)	76
Table 1A.2 Data on Forward rates collected from Exporter (Code: Cap-2)	80
Table 1A.3 Data on Forward rates collected from Importer (Code: Acc-comp tech)	81
Table 1A.4 Data on Forward Rates collected for a Private Sector Bank (29-Mar-2017, Code: Y-bank)	82
Table 1A.5 Data on Forward rates collected from Exporter (Code: Nar-Ptech)	82

## **Appendix – 2 Observations for Data Analysis** **84**

Table 2A.1 Observations for exchange rate realized using Futures and Forwards hedges for US\$ receivable	84
Table 2A.2 Observations for exchange rates realized using Options (Put) and Forwards hedges for US\$ receivable (exporter)	109
Table 2A.3 Observations for exchange rates realized using Futures and Forwards hedges for US\$ payable (importer)	115
Table 2A.4 Observations for exchange rates realized using Call Option and Forwards hedges for US\$ payable (importer)	118
Table 2A.5 Observations for exchange rates realized using Futures and Forwards hedges for Euro receivable (exporter)	119
Table 2A.6 Observations for exchange rate realized using Option and Futures hedge for US\$ receivable (exporter)	124
Table 2A.7 Observations for exchange rate realized using Option and Futures hedges for US\$ payable (importer)	130

## **Appendix – 3 Calculation of Realized Exchange Rates for Futures, Forwards and Option hedges** **131**

Table 3A.1 Foreign Currency Exchange rates realized under Futures hedge for trade transactions	131
Table 3A.2 Foreign Currency Exchange rates realized under Options hedge for trade transactions	162
Table 3A. 3 Foreign Currency Exchange rates realized under Forward contracts hedge for trade transactions	244

## **Appendix – 4 Calculation of Cost of Financing the Margin** **271**

Table 4A.1 Cost of financing the margin for observation no.1	271
Table 4A.2 Cost of financing the margin for observation no.2 and observations no. 234 – 250	273

Table 4A.3 Cost of financing the margin for observation no.3 and observations no. 251 – 266	275
Table 4A.4 Cost of financing the margin for observation no.4 and observations no. 267-287	276
Table 4A.5 Cost of financing the margin for observation no.5 and observations no. 635 – 653	278
Table 4A.6 Cost of financing the margin for observation no.6	281
Table 4A.7 Cost of financing the margin for observation no.7	283
Table 4A.8 Cost of financing the margin for observation no.8	286
Table 4A.9 Cost of financing the margin for observation no.9	288
Table 4A.10 Cost of financing the margin for observation no.10 observations no. 288-305	292
Table 4A.11 Cost of financing the margin for observation no.11	294
Table 4A.12 Cost of financing the margin for observation no.12	296
Table 4A.13 Cost of financing the margin for observation no.13	299
Table 4A.14 Cost of financing the margin for observation no.14	302
Table 4A.15 Cost of financing the margin for observation no.15	304
Table 4A.16 Cost of financing the margin for observation no.16	309
Table 4A.17 Cost of financing the margin for observation no.17	312
Table 4A.18 Cost of financing the margin for observation no.18	315
Table 4A.19 Cost of financing the margin for observation no.19	318
Table 4A.20 Cost of financing the margin for observation no.20	324
Table 4A.21 Cost of financing the margin for observation no.21	326
Table 4A.22 Cost of financing the margin for observation no.22	329
Table 4A.23 Cost of financing the margin for observation no.23 and observations no. 306 - 325	332
Table 4A.24 Cost of financing the margin for observation no.24	334
Table 4A.25 Cost of financing the margin for observation no.25	336

Table 4A.26 Cost of financing the margin for observation no.26 and observations no. 326 – 345	340
Table 4A.27 Cost of financing the margin for observation no.27 observations no. 346 – 365	342
Table 4A.28 Cost of financing the margin for observation no.28 and observations no. 366- 383	344
Table 4A.29 Cost of financing the margin for observation no.29	347
Table 4A.30 Cost of financing the margin for observation no.30	351
Table 4A.31 Cost of financing the margin for observation no.31	354
Table 4A.32 Cost of financing the margin for observation no.32 & observation nos. 384- 404	358
Table 4A.33 Cost of financing the margin for observation no.33	360
Table 4A.34 Cost of financing the margin for observation no.34	363
Table 4A.35 Cost of financing the margin for observation no.35	365
Table 4A.36 Cost of financing the margin for observation no.36 and observations no. 61 – 77	369
Table 4A.37 Cost of financing the margin for observation no.37 and observations no. 78 - 96	372
Table 4A.38 Cost of financing the margin for observation no.38 and observations no. 97 - 117	376
Table 4A.39 Cost of financing the margin for observation no.39 and observations no. 118 – 134	381
Table 4A.40 Cost of financing the margin for observation no.40 and observations no. 135– 151	383
Table 4A.41 Cost of financing the margin for observation no.41 and observations no. 152 – 173	385
Table 4A.42 Cost of financing the margin for observation no.42 and observations no. 174 – 192	387

Table 4A.43 Cost of financing the margin for observation no.43 and observations no. 193 – 212	391
Table 4A.44 Cost of financing the margin for observation no.45 and observations no. 213 – 233	395
Table 4A.45 Cost of financing the margin for observation no.49 and observations no. 405 – 419	400
Table 4A.46 Cost of financing the margin for observation no.50 and observations no. 596 – 614	402
Table 4A.47 Cost of financing the margin for observation no.51	404
Table 4A.48 Cost of financing the margin for observation no.52 and observations no.420 – 440	408
Table 4A.49 Cost of financing the margin for observation no.53	410
Table 4A.50 Cost of financing the margin for observation no.54 and observations no. 441 – 459	413
Table 4A.51 Cost of financing the margin for observation no.55 and observations no. 482– 497	415
Table 4A.52 Cost of financing the margin for observation no.56 and observations no. 498 – 518	419
Table 4A.53 Cost of financing the margin for observation no.57 and observations no. 519 – 539	424
Table 4A.54 Cost of financing the margin for observation no.58 and observations no. 540 – 560	430
Table 4A.55 Cost of financing the margin for observation no.59 and observations no. 561 – 576	437
Table 4A.56 Cost of financing the margin for observation no.60 and observations no. 577 – 595	445
Table 4A.57 Cost of financing the margin for observations no. 460 – 481	454
Table 4A.58 Cost of financing the margin for observations no. 615 – 634	456
Table 4A.59 Cost of financing the margin for observations no. 654 – 674	459

Table 4A.60 Cost of financing the margin for observations no. 675 – 694	462
Table 4A.61 Cost of financing the margin for observations no. 695 – 714	464
Table 4A.62 Cost of financing the margin for observation no. 715	467
Table 4A.63 Cost of financing the margin for observation no. 716	468
Table 4A.64 Cost of financing the margin for observation no. 717	469
Table 4A.65 Cost of financing the margin for observation no. 718	470
Table 4A.66 Cost of financing the margin for observation no. 719	471
Table 4A.67 Cost of financing the margin for observation no. 720 – 738	473
Table 4A.68 Cost of financing the margin for observation no. 739 – 757	474
Table 4A.69 Cost of financing the margin for observation no. 758– 776	476
Table 4A.70 Cost of financing the margin for observation no. 777 – 798	479
Table 4A.71 Cost of financing the margin for observation no. 799 – 820	485
Table 4A.72 Cost of financing the margin for observation no. 821 – 836	490
Table 4A.73 Cost of financing the margin for observation no. 837 – 856	494
Table 4A.74 Cost of financing the margin for observation no. 857 – 875	497
Table 4A.75 Cost of financing the margin for observation no. 876 – 915	503
 <b>PAPER PUBLISHED</b>	 <b>505</b>