

Making currency trading: The new way to make money



Mrs. Debdatta Nandwani, Dy. Director General, FIEO(ER) with Mr. Arindam Saha, Vice President, Marketing & Business Development, MCX'SX.



A view of the participants

The Federation of Indian Export Organizations FIEO (ER) organised a Workshop on Currency Trading on the MCX'SX trading platform jointly with MCX'SX at Kolkata on 18 March 2010. The meeting was attended by Mrs Debdatta Nandwani, Dy Director General, FIEO (ER), Mr P T Srinath, Dy. Director, FIEO (ER), Mr Arindam Saha, Vice President (Mktg & Business Development), MCX Stock Exchange Ltd, Kolkata, along with 27 leading exporter members of FIEO ER.

Welcoming the exporter members of FIEO (ER), Mrs Nandwani said that the growth of the currency futures markets has taken everyone by surprise. Commenting on the growth, DDG (ER) stated that the currency futures markets has grown by nearly double that of Nifty futures turnover and around four fifths of NIFTY options turnover. Exporters in even smaller cities are taking advantage of the latest hedging instrument. And the market size is slated to grow in the semi-urban and block levels as per the MCX'SX statement issued in this respect.

This workshop was intended to ensure that the advantage of an efficient currency futures market reaches a wide spectrum of users and to educate the members about cur-

rency futures market and its benefits.

Mr Arindam Saha, Vice President (Marketing and Business Development), MCX'SX gave a lucid presentation. According to him, the background to the trade in foreign exchange is that the Asian markets had traded in Indian rupees in Singapore and Hong Kong markets since these are open markets and the rupee exchange control in the international markets was in their hands. It was then that the RBI decided to introduce a platform for trade in foreign currencies in India. Initially there were three bidders, of which MCX'SX was one. Over the years the MCX'SX has grown and expanded to include trade in both commodities as well as foreign currency.

A currency futures contract is a standardized forward contract that is traded on the exchange. In other words, it is a contractual agreement to buy or sell a particular currency at a pre determined rate on a specified rate. The US dollar-Indian rupee exchange rate is typically affected by the demand and supply of the US\$ in the domestic and international markets. The demand and supply dynamics is principally influenced by factors such as growth in imports, exports, capital flows, overall economic

growth in the country, etc.

The benefits of MCX'SX exchange over OTC forward contracts are:

- Future contracts are standardized forward contracts with lot size of US\$1000.
- Smaller lot size enables small size corporate, importers and exporters to hedge.
- Market reach.
- Transparent price discovery mechanism and equal treatment provided to all investors.

Future growth drivers for FX futures in India were:

- Broad basing of market participants.
- Increase in NRI investments.
- Enhance participants from Micro, Small and Medium Enterprises.
- Enhancing trading limits.
- Extension of trading hours.
- Increase in lot size.
- Introduction of new currency contracts on Euro, Japanese Yen, Pound Sterling etc.& cross currencies.
- Introduction of exchange traded FOREX options.

The meeting ended with a vote of thanks given by Mr Srinath, Dy Director, FIEO (ER). ■