

NSE's Currency Futures

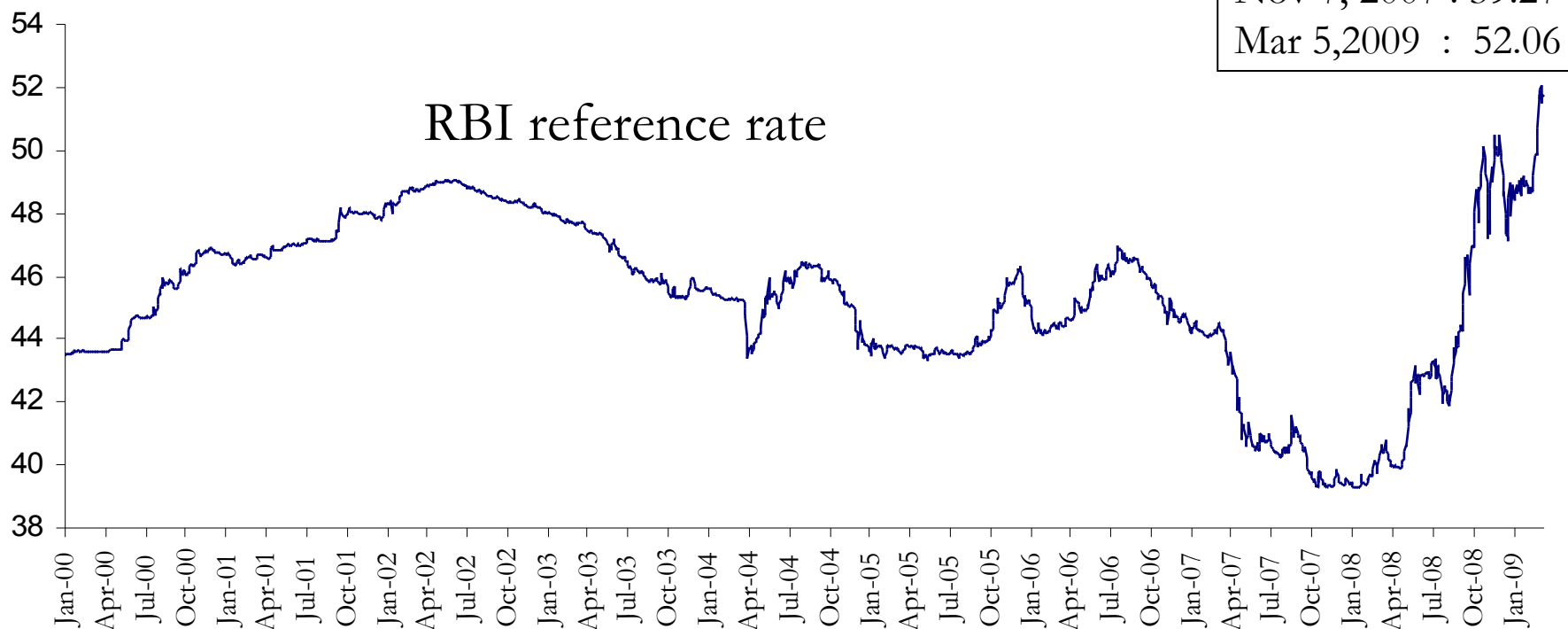
March 2009



- OTC
 - For hedging purposes
 - Banks as the counter-party
 - Forwards, swaps and Options
 - Regulated by RBI
- No Exchange traded market
- Need to deepen the market
- Increased volatility
- Need for Exchange traded futures



Movement of USD-INR



- Rupee has depreciated by over Rs.7 in past 6 months (around 16%)
- Rupee touched an all time low Rs.52.06 on March 05, 2009 in last decade



OTC vs Futures

	OTC Market	Exchange Traded Futures
Accessibility	Restricted entry	Entry not restricted
Price Transparency	Limited access	Online High visibility
Liquidity	Depth not known	Depth visible
Agreements	Customized	Standard
Credit Exposure	Yes	Mitigated through NSCCL
Settlement	Physical Delivery	Net Settled in INR
Underlying exposure	Required	Not required



Policy framework

- Regulatory Framework
 - RBI – SEBI Technical committee report
 - RBI circular
 - SEBI circular
- All resident individuals permitted
- NRIs and FIIs not permitted
- Underlying exposure not necessary
- Settlement of currency futures – cash settled in INR
- Commenced trading with September 2008 contract



A break through

- Currency derivatives in equity exchanges
- Hitherto, different asset classes in separate silos
- ‘First time’ – in many areas
 - Joint regulation by SEBI and RBI
 - Non-equity, asset class with equity derivatives
- Similar front end
- Similar margining methods
- Similar regulatory, trading and clearing infrastructure



Contract specifications

Category	Description
Underlying	Rate of exchange between 1 USD and INR
Contract Size	USD 1000
Contract Months	12 near calendar months
Expiration Date and Time	Last business day of the month
Min Price fluctuation	0.25 paise or INR 0.0025
Settlement	Cash settled in INR on relevant RBI reference rate

Particulars	Time lines
Trading Hours	9:00 am to 5:00 pm
Settlement Schedule	
Daily MTM	T+1
Final Settlement	T+2
Funds Pay-in & Pay out	around 08:30 am

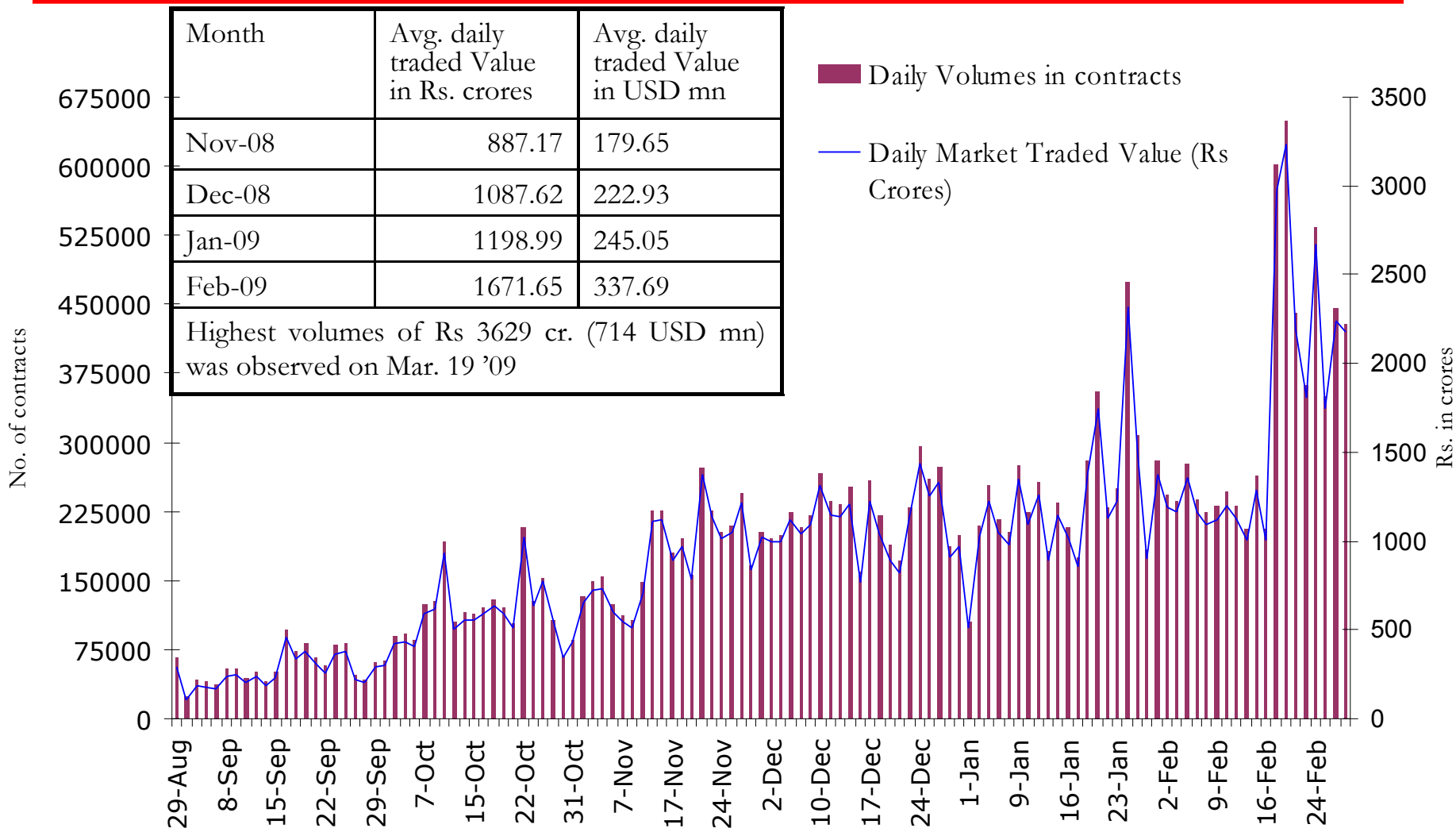


Membership and Operations

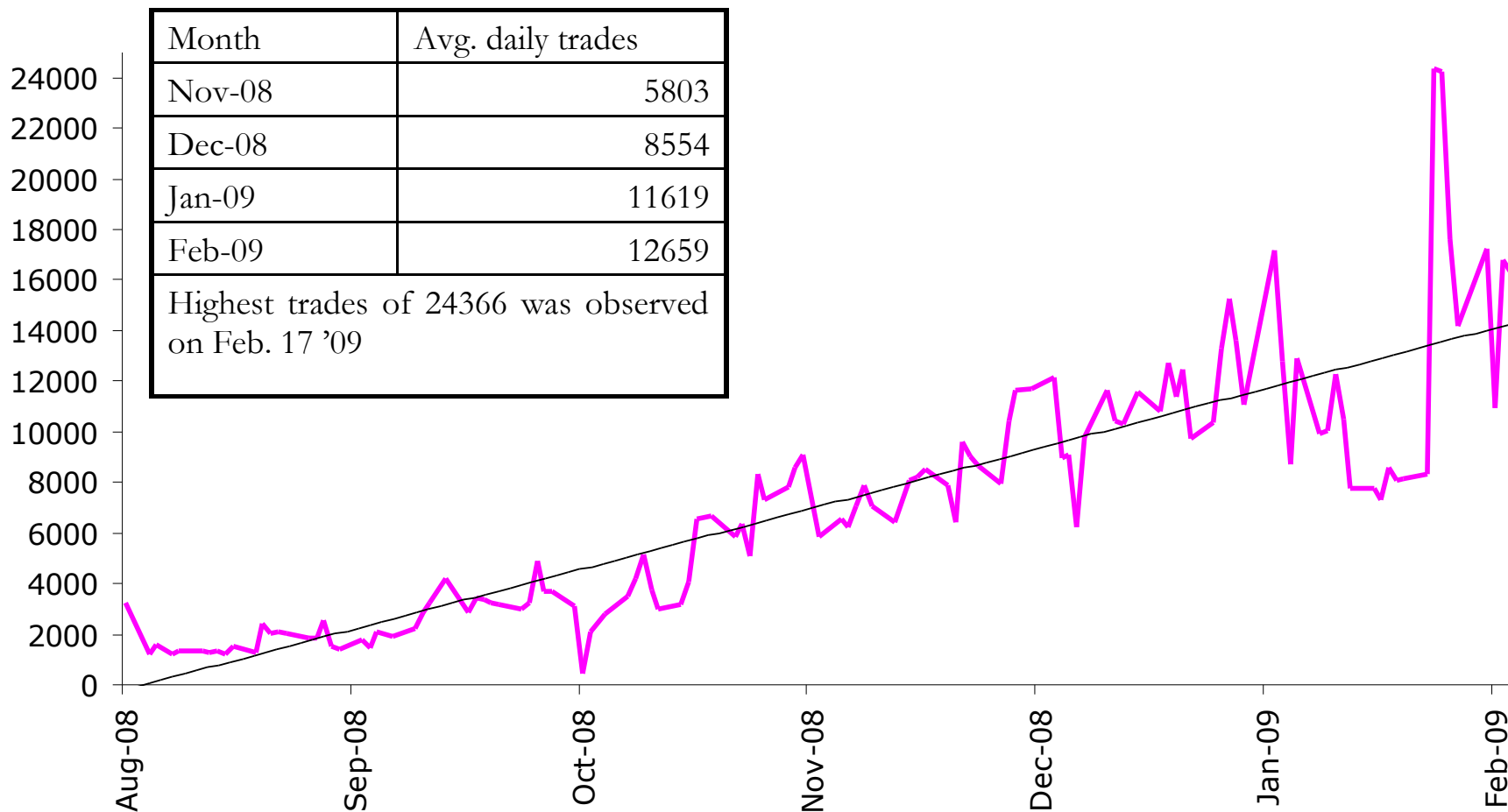
- Around 520 members
- Multiple Banks
- Many more in the pipeline
- Max traded value: around Rs.3629 cr. (USD 714 mn)
- Near month most active
- Next three months more active
- Tight Bid-ask spreads



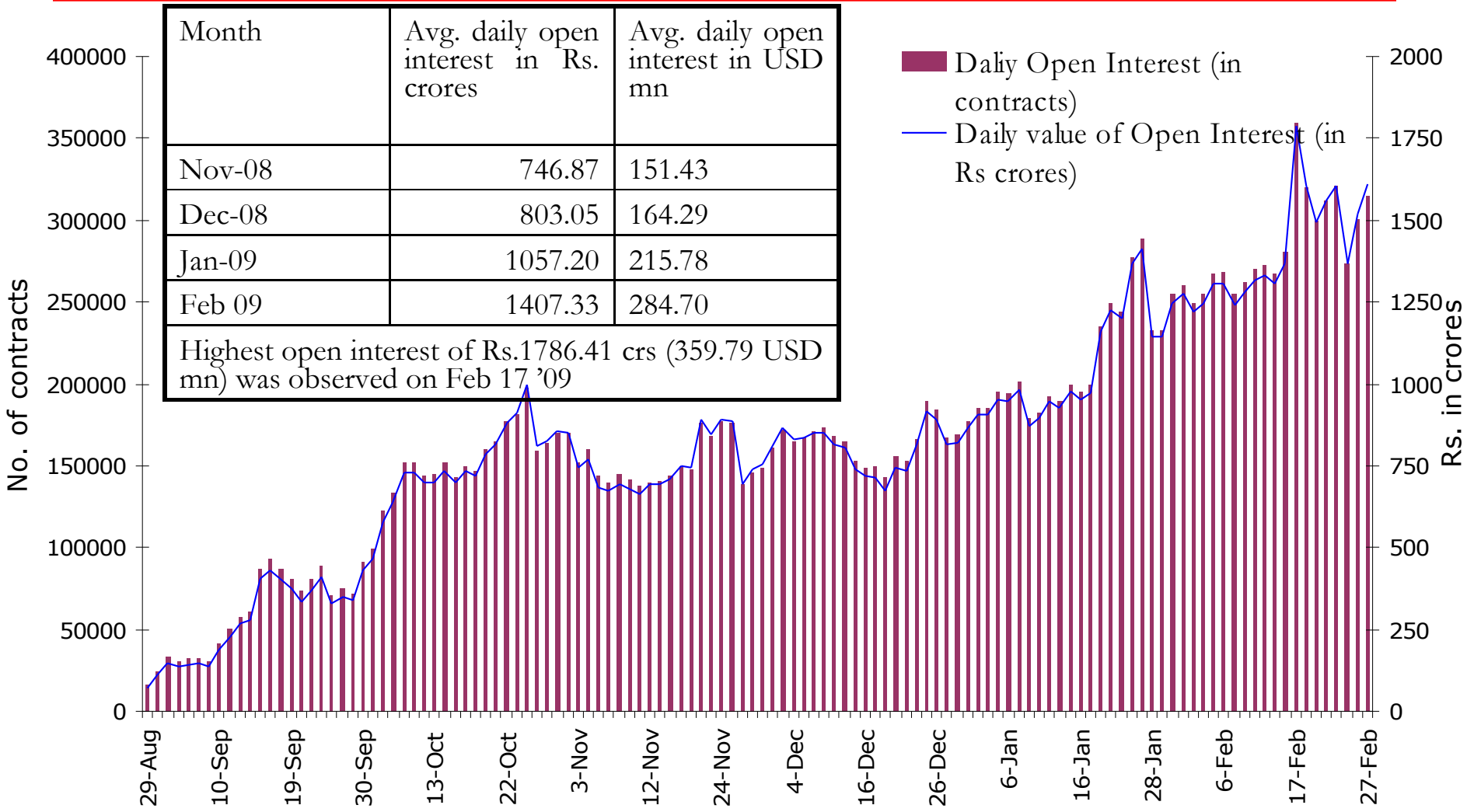
Turnover



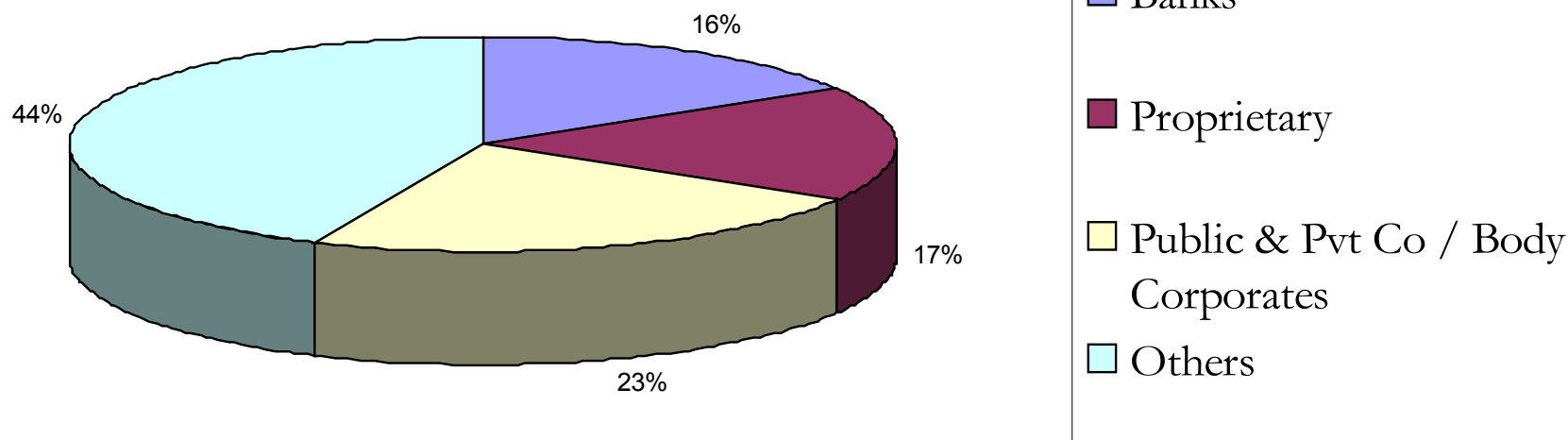
Number of trades



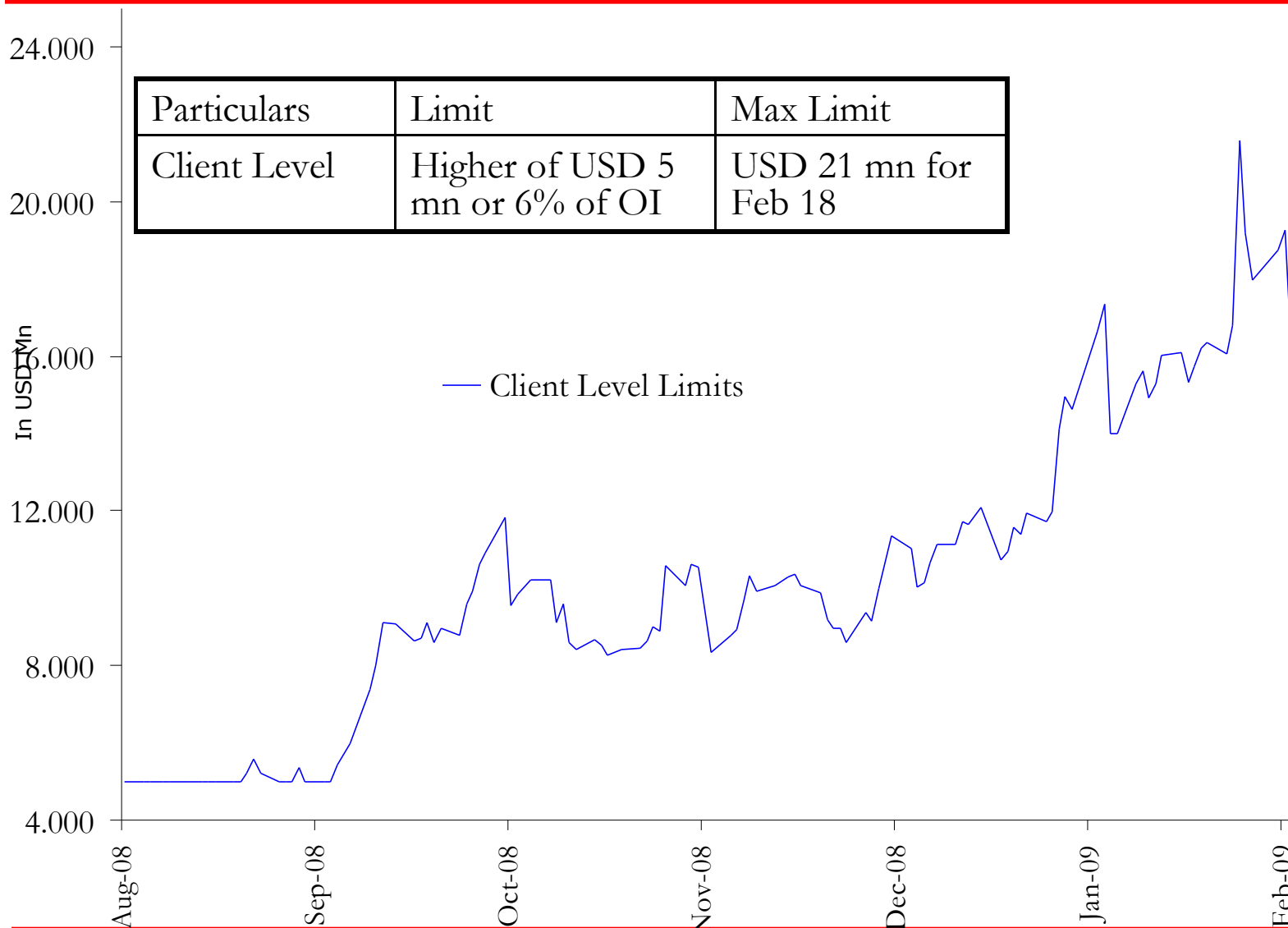
Open Interest



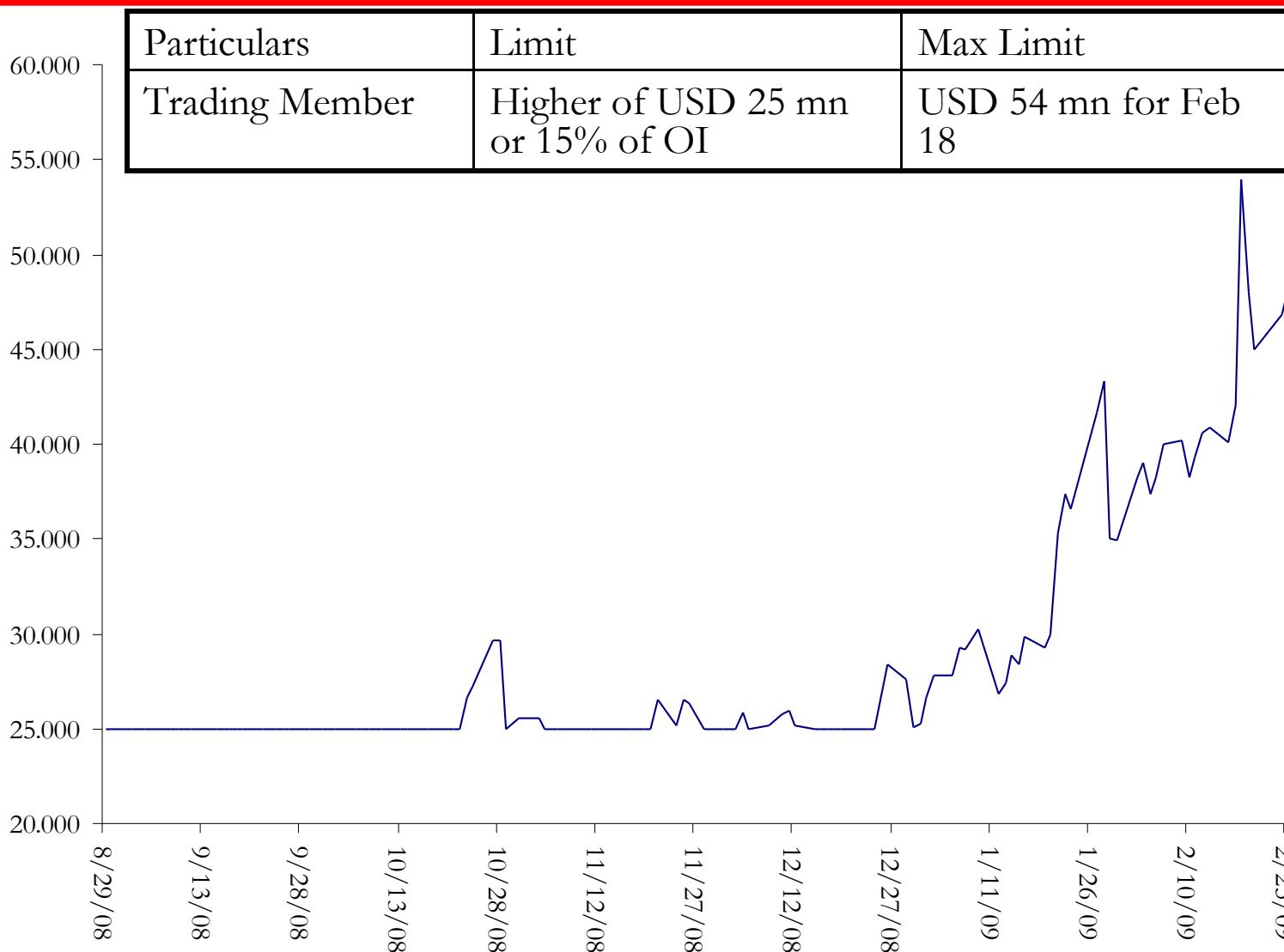
Participants – early experience



Client Position Limits

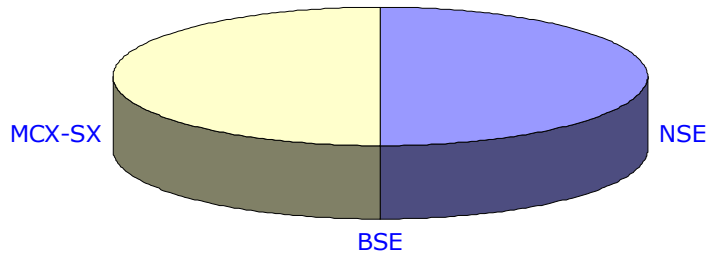


TM - Position Limits

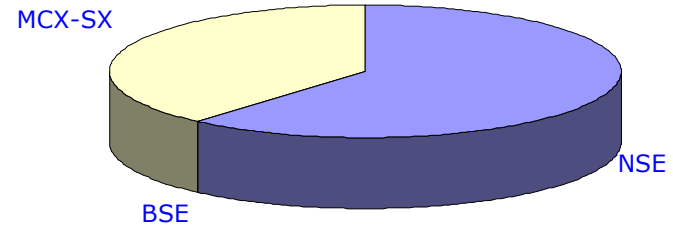


Comparative Volumes and OI

Traded Volume



Open Interest

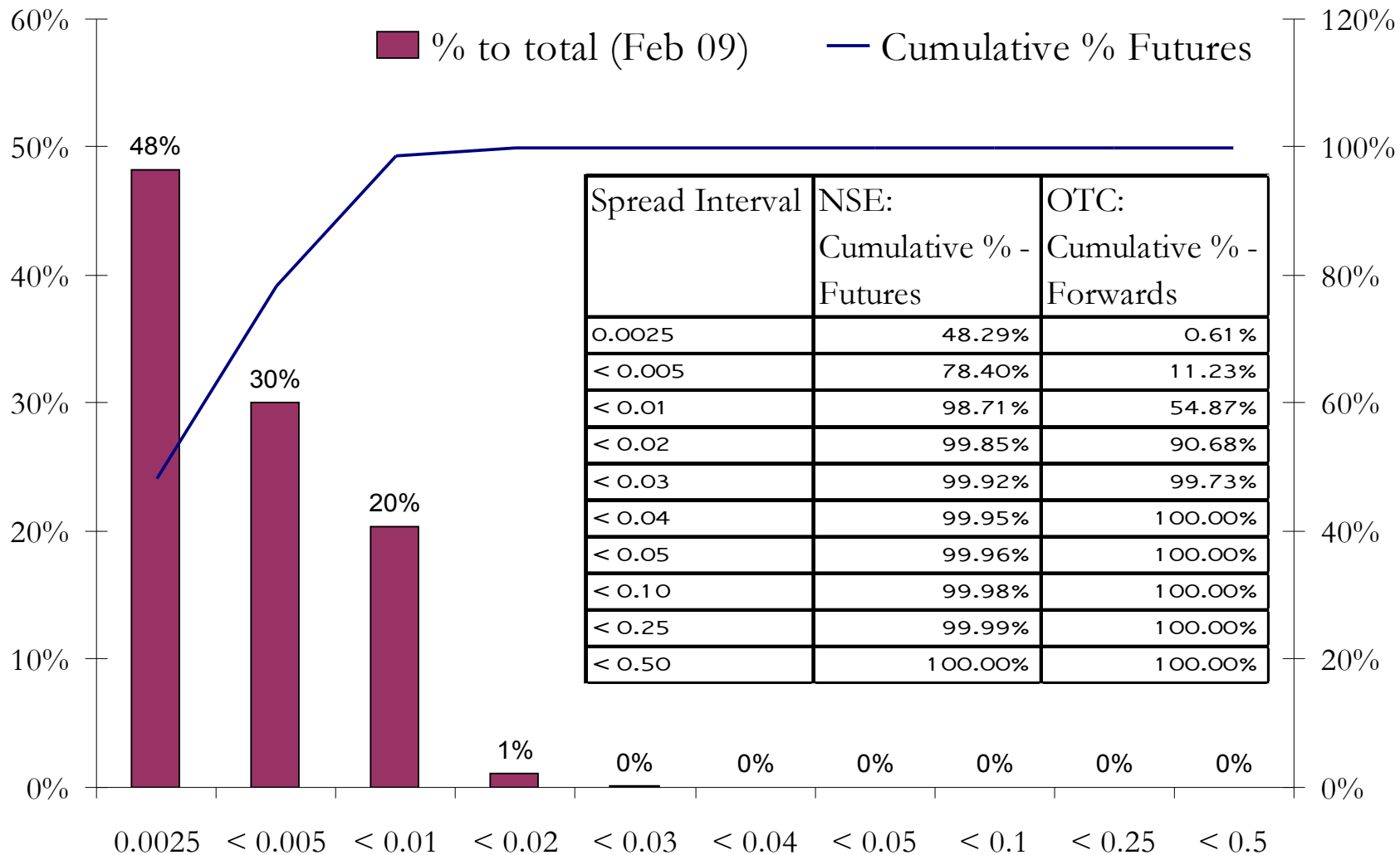


Exchange	Average daily volumes in USD mn	% of market share
NSE	247	approx 50%
BSE	Negligible	Negligible
MCX-SX	247	approx 50%

Exchange	Average daily OI in USD mn	Market share %
NSE	204	61%
BSE	Negligible	Negligible
MCX-SX	128	39%



Spread distribution



Impact Cost

Order size	:	USD 500,000
Instances covered	:	All
Order Book	:	Both buy and sell
Average cost	:	Around 1 to 2 bp
90 th percentile	:	Around 3 bp



- Nation-wide participation
- Banks doing proprietary trading
 - Need to increase client business
- Multiple exchanges
- Good liquidity for
 - smaller order sizes
 - Near months
- Need for bringing in Depth and Liquidity



Road ahead – How do we develop?

- Range of products
 - More underlyings – ex. GBP, Yen, Euro
 - Options
- Participants
 - Foreign Institutional Investors
 - Need to hedge exposures
 - Can actively trade resulting in deeper markets
- Limits
 - Need for enhancing the limits
 - Currently at 6% and 15% for clients and TMs
 - Constraints for Corporate Clients
 - Need for increase in the percentages



- Exporters and Importers hedging, though in a small way
 - No physical delivery – an issue
 - Need to Pay Margins
 - Daily Mark to Market payment as a new paradigm
 - Bundled cost vs. segregated cost
 - Position limits are too small
 - SMEs may take the benefit
 - Larger needs of hedging for large corporates
 - Position limits do not permit



Road ahead – contd....

- Improvement in Bank participation
 - Reduces credit risk issues for banks
 - Retains business
 - Reduces the need for Risk weighted capital
 - Helps in handling the physical leg
 - Longer tenures – liquidity
- Education of End users



THANK YOU

