

FINANCIAL INSTITUTION MARKET AND SERVICES

Unit-2

DR. RUPSA MAHAPATRA

Module-II

Money Markets in India, (Call Money Market, Treasury Bill, Commercial Paper, Certificate of Deposit), Classification of Stock Market and Securities - IPO, Stock Exchanges, Stock Market Indices, Market Micro-Structure in Stock Market, Foreign Exchange Market - Foreign Exchange Market Structure, Risk Management in Foreign Exchange Market

Money Market in India

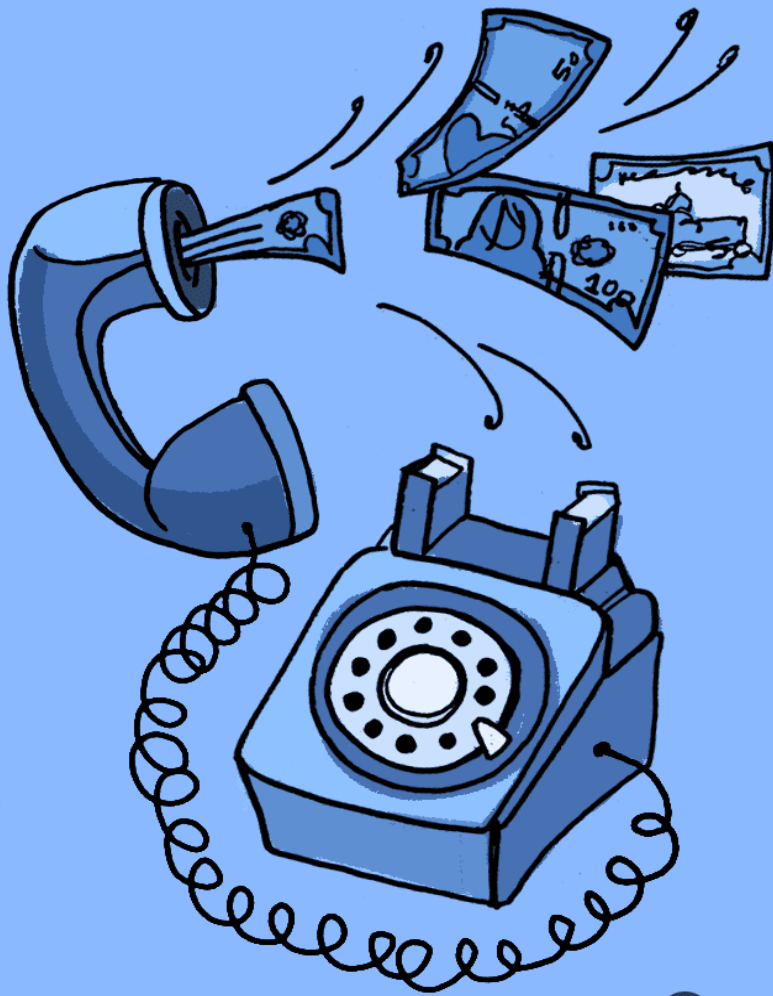
Organized Market

Unorganized Market

- Call and Notice Money Market
- Treasury Bill Market
- Commercial Papers
- Commercial Bills
- Certificate of Deposits
- Money Market Mutual Fund
- Repo Market
- DFHI

- Money Lenders
- Indegenous Bankers





Call Money

['kol 'mæ-nē]

A short-term loan that is payable on demand with a maturity of one to 14 days.

Features Of Call Money Market

- Maturity period of call loans varies between one day to fortnight.
- It deals in overnight funds.
- It is a highly liquid asset.
- Call loans are unsecured.
- It is affected by seasonal variation.
- Helps bank to manage short term deficit.



Treasury Bill

Bill Market

- **Treasury Bill market- Also called the T-Bill market**
 - These bills are short-term liabilities (91-day, 182-day, 364-day) of the Government of India
 - It is an IOU of the government, a promise to pay the stated amount after expiry of the stated period from the date of issue
 - They are issued at discount to the face value and at the end of maturity the face value is paid
 - The rate of discount and the corresponding issue price are determined at each auction
 - RBI auctions 91-day T-Bills on a weekly basis, 182-day T-Bills and 364-day T-Bills on a fortnightly basis on behalf of the central government



TYPES OF TREASURY BILLS

- 1) 91 DAY TREASURY BILLS
- 2) 182 DAYS TREASURY BILLS
- 3) 364 DAYS TREASURY BILLS
- 4) 14 DAYS TREASURY BILLS



Participants in the Treasury Bills Market :

The following are the major participants of the treasury bills market :-

- + Reserve Bank of India.
- + State Bank of India and other Commercial Banks.
- + State Govts.
- + Financial institutions such as LIC, UTI, NABARD etc.
- + Discount and Finance House of India (DFHI).
- + Public.
- + Provident funds.
- + Dealers.

Features

- ✚ Treasury bills are short term borrowing instruments of the Central govt.
- ✚ Treasury bills are safest money market instruments.
- ✚ Treasury bills are different from commercial bills.
- ✚ Treasury bills are purely finance bills and do not arise out of any trade transactions.
- ✚ Treasury bills are issued only by Central Govt. through the RBI.

COMMERCIAL PAPERS (CP)



www.CAclubindia.com



Commercial Paper

[kə-'mər-shəl 'pā-pər]

A commonly used type of unsecured, short-term debt instrument issued by corporations, typically used for the financing of payroll, accounts payable and inventories, and meeting other short-term liabilities.

What is a Commercial Paper?

- **Commercial Paper (CP)** is an unsecured and negotiable money market instrument issued in the form of a promissory note
- CPs are issued by companies to raise short-term funds for meeting working capital requirements.

Benefits of Commercial Paper

To the Issuer

- Low interest expenses
- Access to short term funding
- Flexibility and liquidity
- Investor recognition
- Ease and low cost of establishment
- No Collaterals

To the Investor

- Higher yield
- Portfolio diversification
- Flexibility
- Liquidity



Certificate of Deposit (CD)

[sər-'ti-fi-kət əv di-'pä-zət]

A product offered by banks and credit unions that provides an interest rate premium in exchange for the customer agreeing to leave a lump-sum deposit untouched for a predetermined period of time.

What do you mean by certificate of deposit?

- Certificate of Deposit or CD is a fixed-income financial instrument governed under the Reserve Bank and India (RBI) issued in a dematerialized form.
- The amount at payout is assured from the beginning. A CD can be issued by any All-India Financial Institution or Scheduled Commercial Bank.



John Doe Bank Inc.

Certificate of Deposit

Name of Depositor: May Doe Smith

Deposit Number: 65440986

Description: Family Treasures

Reference Number: 11238-AB-332987

Valued At: \$50,000

Transaction code. ALSF/OPP/F66OPE9

Date of Deposit: June 23, 2016

XXXZ0007750AXXX
XXX001000123-81988XXX
00012705001XX
FD-SYPP1098-ARCIX
SC-004531/VOL5



Director's Signature

Neil Patel

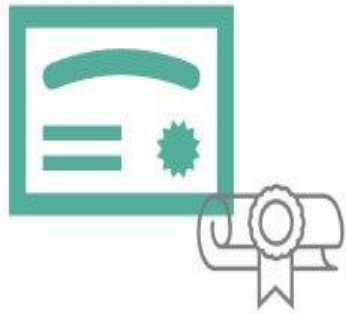
Authorized Signature

Henry James

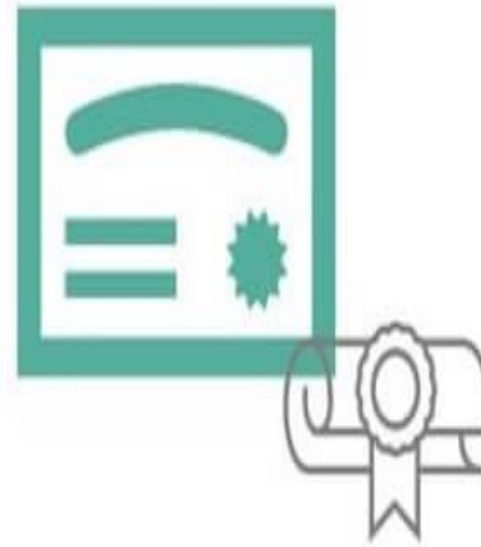
Certificate of Deposit (CD)

Certificate of Deposit

Features



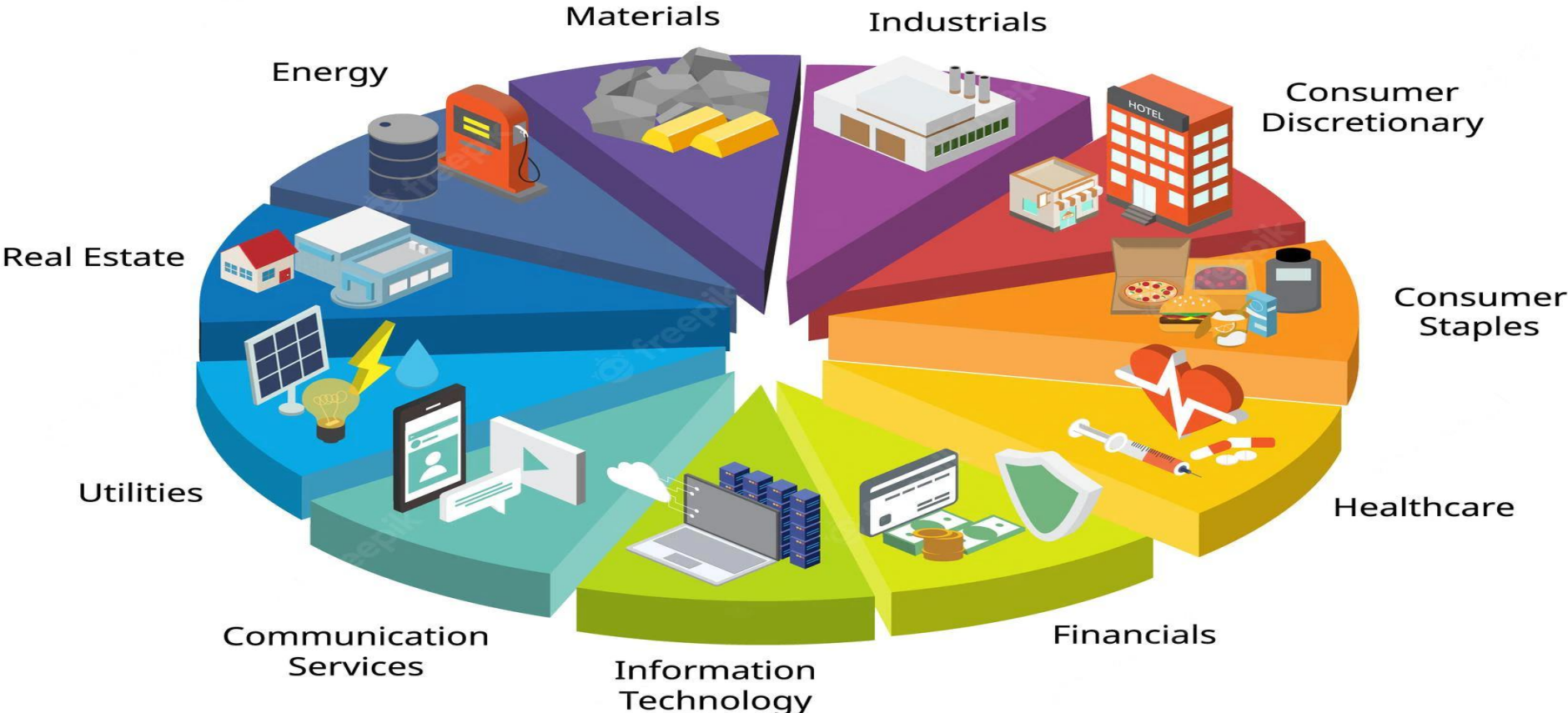
A certificate of deposit (CD) is a money market instrument issued by a bank to raise funds from the secondary money market.



- Investment Vehicle
- Issued Mostly By Banks
- Time Deposit
- Interest-Based Earnings
- Low Risks
- Competitive Rates



Stock Market Sectors



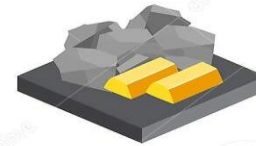
Classification of Stock Market

- Developed Markets
- Emerging Market
- Frontier Market

Stock Market Sectors



Energy



Materials



Industrials



Consumer Discretionary



Consumer Staples



Healthcare



Financials



Information Technology



Communication Services



Utilities



Real Estate

Initial Public Offering

IPO



IPO

[,ī-(,)pē-'ō]

The process of offering shares of a private corporation to the public in a new stock issuance for the first time.

What Is an Initial Public Offering (IPO)?

- An initial public offering (IPO) refers to the process of offering shares of a private corporation to the public in a new stock issuance for the first time.
- An IPO allows a company to raise equity capital from public investors.
- The transition from a private to a public company can be an important time for private investors to fully realize gains from their investment as it typically includes a share premium for current private investors.
- Meanwhile, it also allows public investors to participate in the offering.



WHAT IS AN IPO?

WHAT

INITIAL PUBLIC OFFERING

GOOD TO KNOW
GOING PUBLIC WITH SPACs

- ➔ LESS TIME TO COMPLETE
- ➔ FASTER EXECUTION
- ➔ SHORTER OR NO LOCKOUTS

PRIVATE COMPANY



OWNER



SELLS SHARES TO PUBLIC



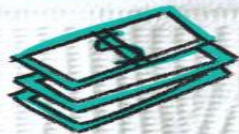
PUBLIC COMPANY



OWNERS

WHY

RAISE MONEY



ALLOW INSIDERS TO ACCESS FUNDS



GAIN CREDIBILITY



INCREASE AWARENESS



ATTRACT TOP TALENT



Stock Exchange market is a vital component of a stock market. It facilitates the transaction between traders of financial instruments and targeted buyers. A stock exchange in India adheres to a set of rules and regulations directed by Securities and Exchange Board of India or SEBI. The said authoritative body functions to protect the interest of investors and aims to promote the stock market of India.



What Are Stock Market Index/Indices?

- Stock market indices represent a certain group of shares selected based on particular criteria like trading frequency, share size, etc.
- The stock market uses the sampling technique to represent the market direction and change through an index.
- A stock market index is a statistical tool that reflects the changes in the financial markets.
- The indices are indicators that reflect the performance of a certain segment of the market or the market as a whole.

STOCK MARKET INDICES



- A stock market index is created by selecting certain stocks of similar companies or those that meet a set of predetermined criteria.
- These shares are already listed and traded on the exchange.
- Share market indices can be created based on a variety of selection criteria, such as industry, segment, or market capitalization, among others.
- Each share market index measures the price movement and the performance of the shares that constitute that index.
- This essentially means that the performance of any stock market index is directly proportional to the performance of the underlying stocks that make up the index.
- In simpler terms, if the prices of the stocks in an index goes up, that index, as a whole, also goes up.

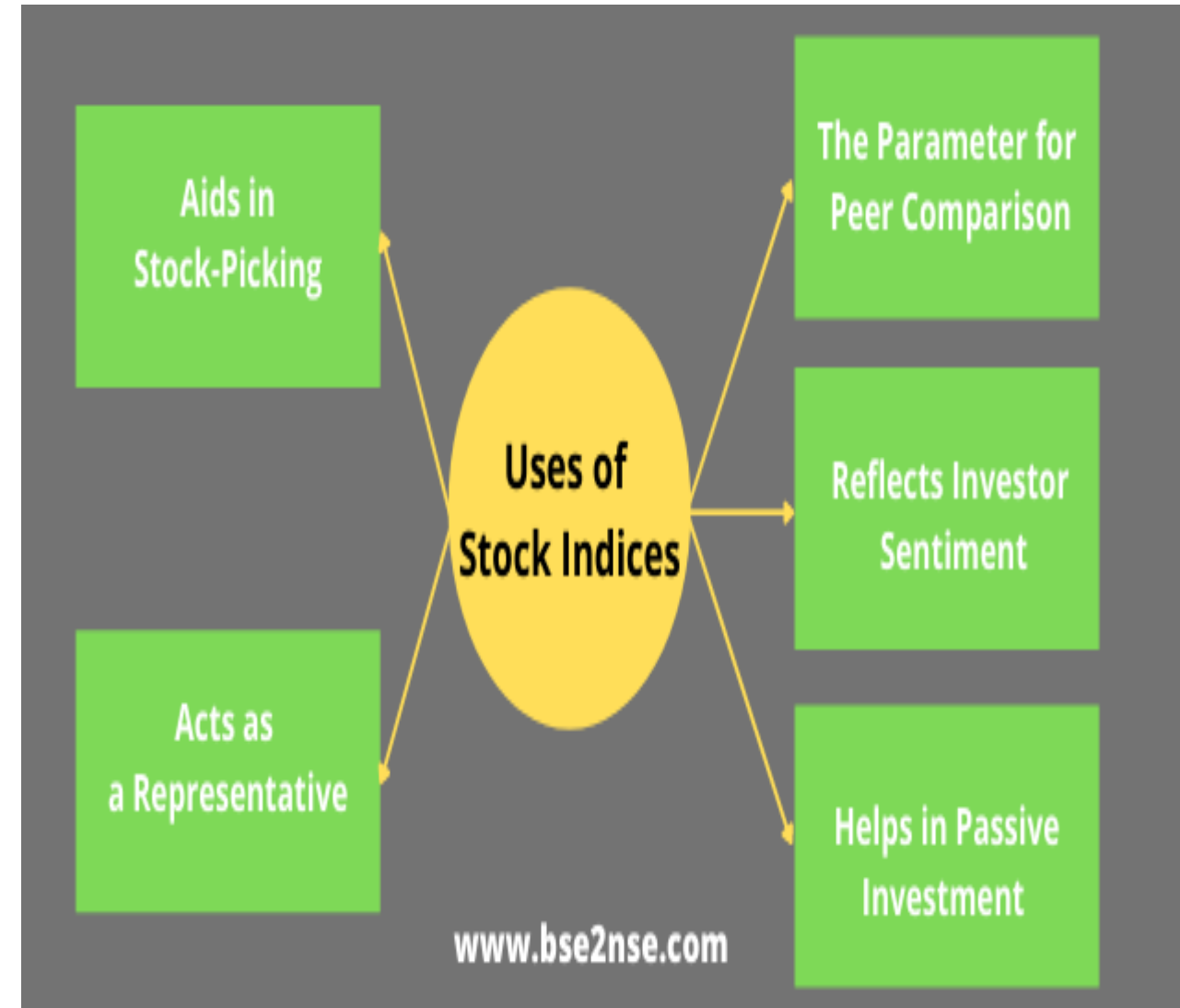


What are the types of Stock Market Indices?

- There are different types of stock market indices based on the kind of stocks taken into account to create the index.

Here's a closer look at some of the most common types of indices:

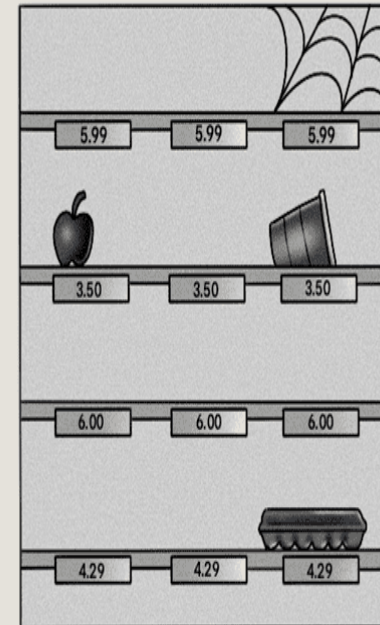
- Benchmark indices such as BSE Sensex and NSE Nifty
- Broader indices such as Nifty 50 and BSE 100
- Indices created based on the market capitalization of companies, such as BSE Midcap and BSE Small cap
- Sector-specific indices like Nifty FMCG,





What is Market Microstructure?

- Market microstructure is the study of financial markets and how they operate.
- Market microstructure research primarily focuses on the structure of exchanges and trading venues (e.g. displayed and dark), the price discovery process, determinants of spreads and quotes, intraday trading behavior, and transaction costs.
- Imperfect Structure will lead to failure.



Market Failure

['mār-kət 'fāl-yər]

A situation defined by an inefficient distribution of goods and services in the free market.

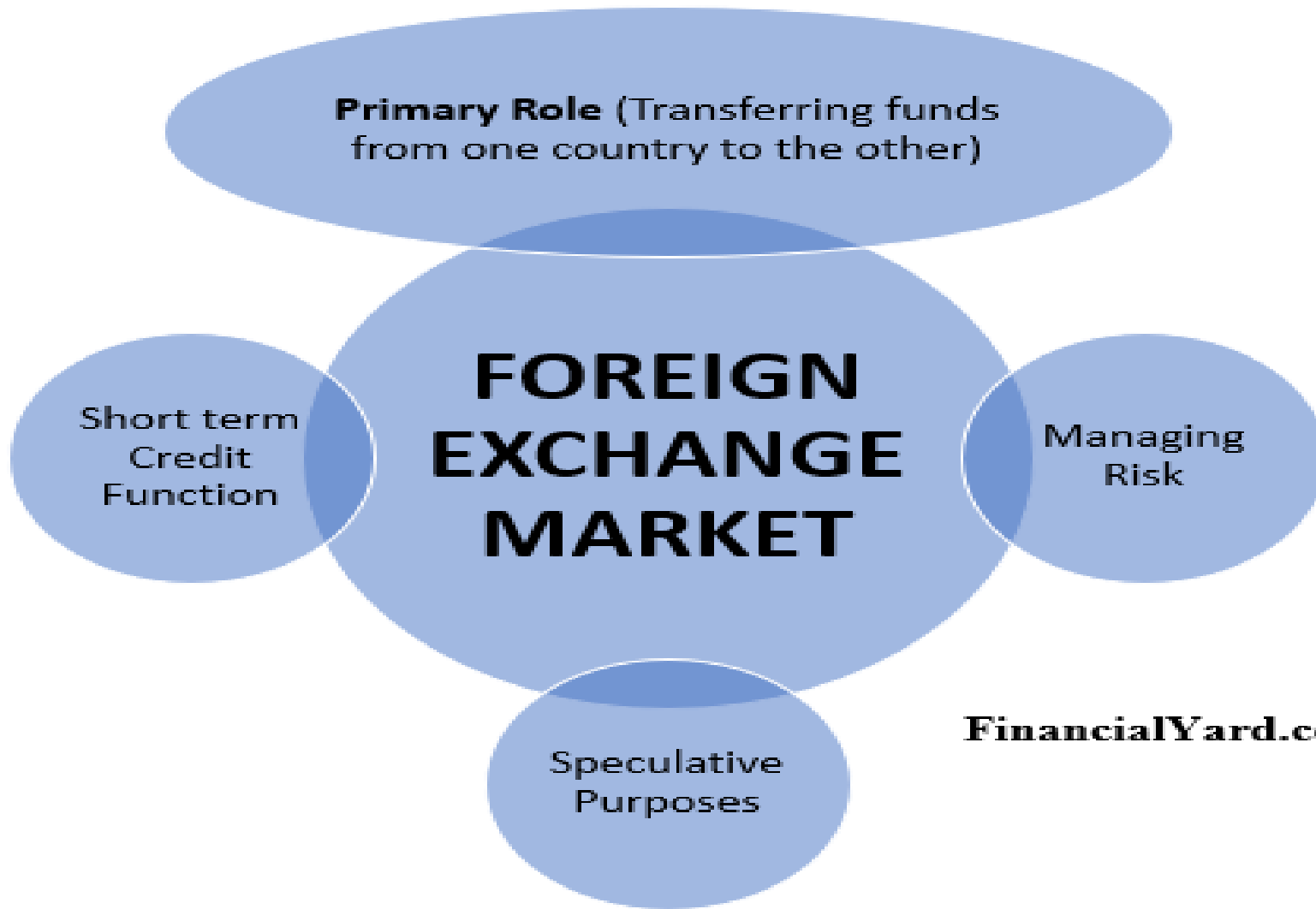


Foreign Exchange (forex or FX)

['fɔːr-ən iks-'tʃɑːnj]

Foreign Exchange (forex or FX) is the trading of one currency for another.

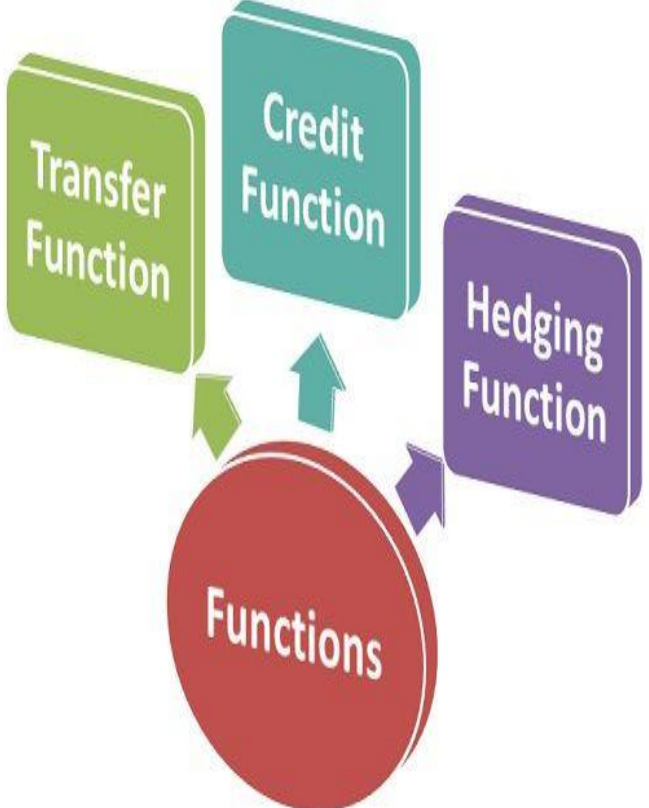




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Forex market participants



Forex Market

Definition

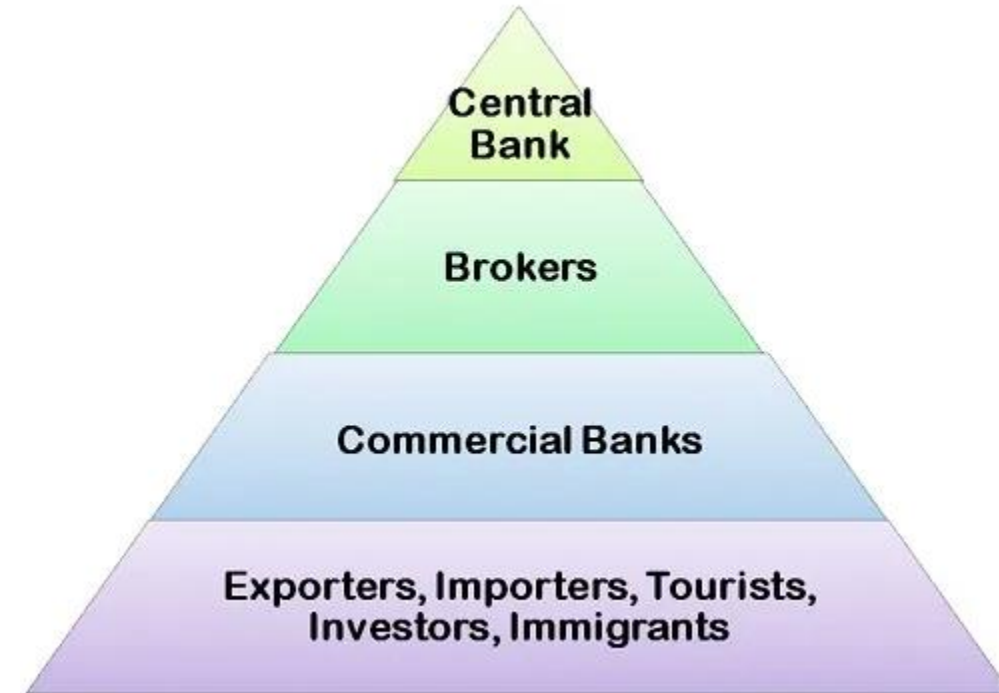
The Foreign Exchange Market is a worldwide market for currency trading. It involves trading between a range of buyers and sellers around the clock except for weekends. It regulates the relative values of different currencies.

Key Essentials

- **Leverage:** It is when a firm avails an amount of debt or loan to finance its assets.
- **Margin:** The minimum installment the trader requires to commence an exchange in the Forex market.
- **Equity:** It is the at-hand balance in a trading account, evaluated after a profit/loss from open positions.

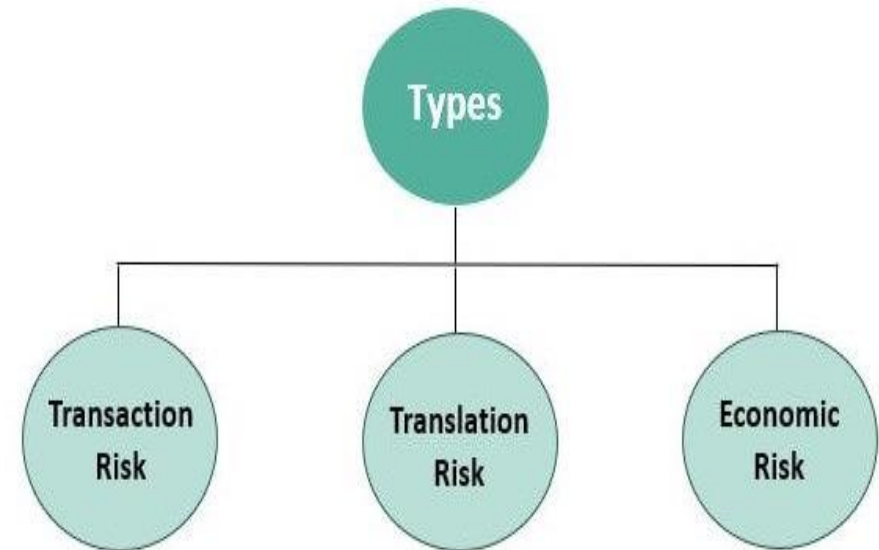
Foreign Exchange Market Structure

Forex Market



- Forex (Foreign Exchange) risk management enables you to implement a set of rules and measures to ensure any negative impact of a forex trade is manageable. An effective strategy requires proper planning from the outset, since it's better to have a risk management plan in place before you actually start trading.

Foreign Exchange Risks





Forex

RISK Management



FOREIGN EXCHANGE RISK

It is the impact the firm faces due to exchange rate fluctuations or changes in the international currency rate

TRANSACTION RISK

It is the gap between the fixation and settlement of the transaction

TRANSLATION RISK

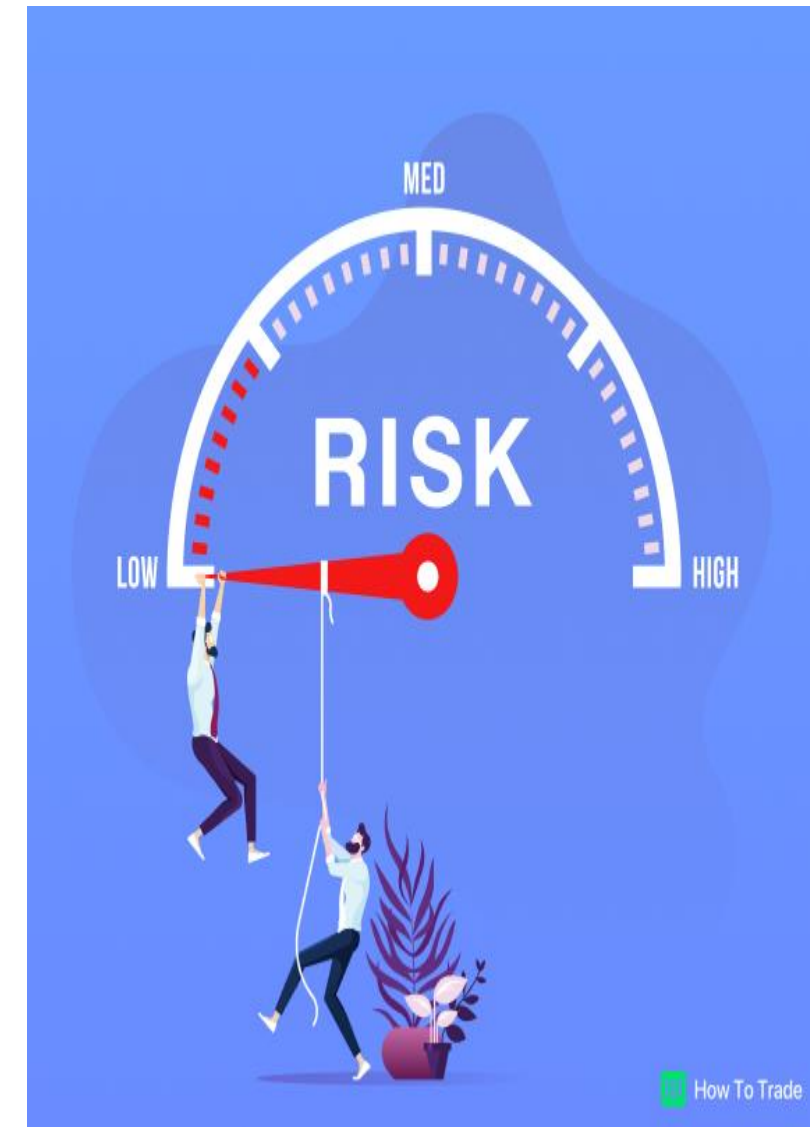
It is risk of losing value in converting foreign currency into domestic currency

ECONOMIC RISK

Changes in government regulations, taxes, political influence, demand, supply status, etc. all these factors affect foreign currency in global market substantially

FOREIGN EXCHANGE RISK MANAGEMENT

- By entering into forward contracts, options, futures, & other derivative instruments
- Aim is to mitigate risk & avoid or minimize unnecessary losses on account of foreign exchange fluctuation
- Managing foreign risk is called **hedging**



THANK

you