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Aspects Leading to Increased Investor Focus on Currency Derivatives

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Abstract
This paper helps determine the significance of factors like hedging, arbitrage, portfolio diversification, market volatility, and speculation that contribute to retail investors' interest in currency derivatives. It also examines the major reasons that keep retail investors on the back foot from investing in currency derivatives if they are not willing to invest in this segment. Special emphasis is given to currency derivative trading.

The interest of investors in currency derivatives has been growing significantly in recent years. Several factors drive this trend, reflecting both global economic dynamics and individual investor strategies. Key among these factors is the heightened volatility in foreign exchange markets, which creates opportunities for speculation and hedging. Additionally, advancements in financial technology have made access to currency derivatives more seamless and efficient, attracting a broader base of investors. Macroeconomic factors, such as interest rate differentials between countries, also play a crucial role by influencing currency values and creating arbitrage opportunities. Furthermore, institutional investors are increasingly utilizing currency derivatives for risk management purposes, recognizing their potential to mitigate foreign exchange risk in international portfolios. Regulatory changes and the evolving landscape of global trade also contribute to the growing appeal of these financial instruments. Overall, the interplay of market volatility, technological innovation, macro-economic conditions, and institutional investment strategies forms the core of the factors driving the increasing interest of investors in currency derivatives.

This report helps determine the reasons to invest in currency derivatives and the reasons why people are not willing to invest in the currency segment.

Keywords: *Currency derivatives, Investor interest, Foreign exchange volatility, financial technology, hedging strategies*

1. Introduction to Currency Derivatives:

The currency derivatives market is the largest asset market in the world, even larger than equity and the commodity markets. However the Indian scenario is quite different. Currency derivatives market happens to be smaller than the other two in India. The daily trading volumes in this market are but a trifle when compared to that of equity market.

In this research paper we aim at finding the reasons as to why this market has not been able to pick up momentum in India. We try to explore what restrains them from investing in these markets, specifically the currency derivatives market. We also mean to suggest steps that can be taken to boost its growth in India. So we ask respondents to rate these steps to know how effective each one will be.

1.1 The various advantages of currency derivatives are:

Hedging: Hedgers are those who want to reduce price risk using futures contracts. Producers of commodities and the users of these commodities use commodity futures contracts so that the price risk of the commodities can be eliminated.

Speculation: if a trader has a view on the direction of the market, that is he expects the value of rupee to appreciate or depreciate, he can sell or buy a USD/INR contract and earn a profit if the market moves in the direction that he expects it to move.

Arbitrage: It means making a riskless profit by entering into transaction in two or more markets simultaneously. The purpose of an arbitrage is to even out the price of assets in the markets in which they are traded.

1.2 Currency future:

A currency future, also known as an FX future or a foreign exchange future, is a futures contract to exchange one currency for another at a specified date in the future at a price (exchange rate) that is fixed on the purchase date; see Foreign exchangederivative. Typically, one of the currencies is the US dollar. The price of a future is then in terms of US dollars per unit of other currency. This can be different from the standard way of quoting in the spot foreign exchange markets. The trade unit of each contract is then a certain amount of other currency. Most contracts are closed out before that. Investors can close out the contract at any time prior to the contract's delivery date.

Currency futures contracts are marked-to-market daily. This means traders are responsible for having enough capital in their account to cover marginsand losses which result after taking the position. Futures traders can exit their obligation to buy or sell the currency prior to the contract's delivery date. This is done by closing out the position.

Currency Futures: The forex spot market is the largest market in the world. Currency futures trade at a fraction of the volume, with many currency futures contracts trading under high volume and good liquidity. Currency futures are exchange-traded and are regulated like other futures markets.

Currency future trading: Typically one of the currencies is the US dollar. The price of a future is then in terms of US dollars per unit of other currency. This can be different from the standard way of quoting in the spot foreign exchange markets. The trade unit of each contract is then a certain amount of other currency.

1.3 Understanding the Mechanism using Spot Rate & Future rate:

The currency spot rate is the current quoted rate that a currency, in exchange for another currency, can be bought or sold at. The two currencies involved are called a "pair." If an investor or hedger conducts a trade at the currency spot rate, the exchange of currencies takes place at the point at which the trade took place or shortly after the trade. Since currency forward rates are based on the currency spot rate, currency futures tend to change as the spot rates changes.

If the spot rate of a currency pair increases, the futures prices of the currency pair have a high probability of increasing. On the other hand, if the spot rate of a currency pair decreases, the futures prices have a high probability of decreasing. This isn't always the case, though. Sometimes the spot rate may move, but futures that expire at distant dates may not. This is because the spot rate move may be viewed as temporary or short-term, and thus is unlikely to affect long-term prices.

TURNING AVERSE

Sharp selloff in the markets weighed on trading volumes in October

	ADTV* (₹ cr)		M-o-M change (%)	
	Cash	Derivatives	Cash	Derivatives
Oct '22	52,446	14,483,462	-21.6 ↓	-5.6 ↓
Nov '22	61,562	14,759,524	17.4 ↑	1.9 ↓
Dec '22	56,711	19,172,441	-7.9 ↓	29.9 ↑
Jan '23	51,844	20,224,720	-8.6 ↓	5.5 ↑
Feb '23	53,803	20,824,802	3.8 ↑	3.0 ↑
Mar '23	52,649	23,603,438	-2.1 ↓	13.3 ↑
Apr '23	54,761	24,220,490	4.0 ↑	2.6 ↑
May '23	63,775	25,219,759	16.5 ↑	4.1 ↑
Jun '23	67,491	25,918,471	5.8 ↑	2.8 ↑
Jul '23	77,337	30,738,867	14.6 ↑	18.6 ↑
Aug '23	83,446	31,401,357	7.9 ↑	2.2 ↑
Sep '23	89,747	35,774,985	7.6 ↑	13.9 ↑
Oct '23	72,178	35,169,825	-19.6 ↓	-1.7 ↓

*NSE, BSE combined; ADTV for the equities segment; Notional turnover for the 'options' segment
Source: NSE, BSE; Compiled by *BS* Research Bureau

Fig 1.1 Key Observations:

ADTV Trends:

The cash segment ADTV shows significant fluctuations, with a notable drop in October 2023 compared to previous months.

The derivatives segment ADTV consistently rises from November 2022 to October 2023, reaching its peak in September 2023.

Month-on-Month (M-o-M) Changes:

The cash segment exhibits high volatility with both positive and negative changes. The most significant drop is in October 2023 (-19.6%), while the highest increase is in November 2022 (+17.4%).

The derivatives segment mostly shows positive growth, with the most considerable increase in December 2022 (+29.9%) and a slight decrease in October 2023 (-1.7%).

Yearly Comparison (October 2022 vs. October 2023):

The cash segment ADTV decreased from 52,446 crore in October 2022 to 72,178 crore in October 2023.

The derivatives segment ADTV increased from 14,483,462 crore in October 2022 to 35,169,825 crore in October 2023.

Market Volatility:

The sharp selloff in the markets is indicated as a reason for the decrease in trading volumes in October 2023. This selloff appears to have a more pronounced effect on the cash segment.

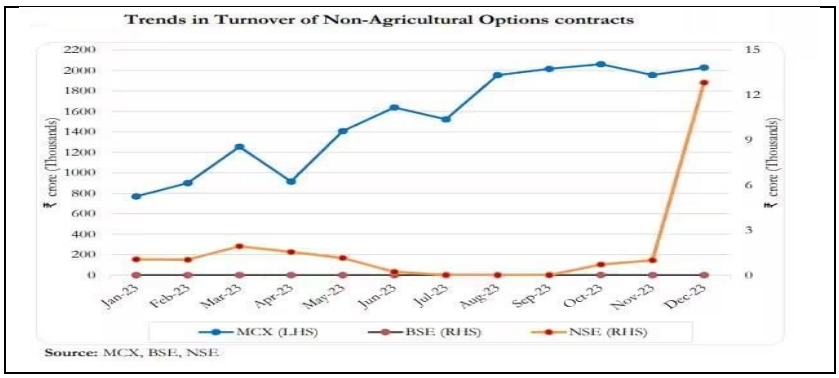
Insights:

Growth in Derivatives:

Despite the fluctuations in the cash segment, the derivatives segment shows robust growth, indicating increasing investor interest and activity in derivatives trading.

Market Sentiment:
The sharp drop in cash segment ADTV in October 2023 suggests a bearish market sentiment or a significant market event impacting investor confidence.

Investment Strategies:
Investors might be shifting their focus from cash to derivatives, possibly due to hedging strategies, speculation, or other market dynamics.



Source: https://www.moneycontrol.com

Fig 1.2: NSE's turnover in non-agri commodity derivatives rises 1,077% MoM in December

The fig1.2 : Illustrates the turnover trends of non-agricultural options contracts across MCX, BSE, and NSE from January to December 2023. MCX demonstrates a strong and consistent upward trend, peaking in August and maintaining high turnover levels. BSE's turnover remains low and stable throughout the year, indicating limited activity. In contrast, NSE shows a dramatic increase starting from October 2023, reaching its peak in December. This sudden surge suggests significant market developments or new incentives attracting traders to NSE, highlighting the evolving dynamics in the non-agricultural options market.

Year	Currency Futures		Currency Options			Total		Average Daily Turnover* (₹ cr.)
	No. of contracts	Turnover (₹ cr.)	No. of contracts	Notional Turnover (₹ cr.)	Premium Turnover** (₹ cr.)	No. of contracts	Turnover* (₹ cr.)	
2018-2019	39,59,81,293	28,27,453.25	30,15,81,250	21,10,472.28	8,213.37	69,75,62,543	49,37,925.54	34,054.66
2017-2018	39,04,33,137	25,95,685.67	37,45,30,592	24,32,816.50	7,572.55	76,49,63,729	50,28,502.17	20,778.93
2016-2017	36,26,15,931	24,89,778.94	34,98,35,508	23,67,296.92	7,153.09	71,24,51,439	48,57,075.85	20,070.56
2015-2016	40,97,59,364	27,49,332.96	26,38,23,800	17,52,552.62	6,059.00	67,35,83,164	45,01,885.58	18,602.83
2014-2015	35,55,88,963	22,47,992.34	12,50,75,731	7,75,915.32	3,164.45	48,06,64,694	30,23,907.67	12,705.49
2013-2014	47,83,01,579	29,40,885.92	18,18,90,951	10,71,627.54	7,297.15	66,01,92,530	40,12,513.45	16,444.73
2012-2013	68,41,59,263	37,65,105.33	27,50,84,185	15,09,359.32	10,109.99	95,92,43,448	52,74,464.65	21,705.62
2011-2012	70,13,71,974	33,78,488.92	27,19,72,158	12,96,500.98	7,100.69	97,33,44,132	46,74,989.91	19,479.12
2010-2011	71,21,81,928	32,79,002.13	3,74,20,147	1,70,785.59	946.70	74,96,02,075	34,49,787.72	13,854.57
2009-2010	37,86,06,983	17,82,608.04	-	-	-	37,86,06,983	17,82,608.04	7,427.53
2008-2009	3,26,72,768	1,62,272.43	-	-	-	3,26,72,768	1,62,272.43	1,167.43

Source: nseindia.in

Fig 1.3 business growth of currency derivatives at NSE (year 2008-2018)

The table presents detailed data on currency futures and options contracts traded at NSE from 2008-2009 to 2018-2019. The information is categorized by the number of contracts, turnover, notional turnover, premium turnover, total turnover, and average daily turnover

* The number of contracts and turnover in currency futures show a fluctuating trend over the years.

* The highest turnover was recorded in 2013-2014 at ,37,65,105.33 crore with 68,41,59,263

Contracts.

* There was a notable decline in turnover from 2013-2014 to 2014-2015, dropping to 22,47,992.34 crore.

2 Review of Literature

- Jethro Godi (2024) - In the study "Analysis of Risk Factors for Investors in Emerging Markets," Jethro Godi aims to identify the crucial risk factors for investors in emerging markets. The study reveals that currency fluctuations are among the key risk factors, significantly impacting investor interest in currency derivatives. This finding highlights the necessity for investors to consider currency risks when investing in emerging markets **(Godi, 2024).**Bose Olatomi Ige & R. Adebayo (2024) - The research "The Influences of Psychological Factors on Investors' Decision Making in the South African Derivative Market" by Bose Olatomi Ige and R. Adebayo explores how psychological factors impact individual decision-making in financial markets. The study identifies biases such as Anchoring, Herding, Overconfidence, and

Representativeness as significant influencers of investment decisions. Understanding these psychological factors can help investors make more informed and rational decisions in the derivative market **(Ige & Adebayo, 2024) Haorui Li (2023) -** In the paper "Consequences of COVID-19 for Currency Markets of US Dollar and RMB," Haorui Li analyzes the impact of the COVID-19 pandemic on the USD/RMB exchange rate and investor behavior. The study finds that market uncertainty, economic activity, and investor sentiment have driven increased interest in currency derivatives during the pandemic. These factors underscore the importance of currency derivatives as tools for managing risk in volatile market conditions (**Li, 2023).Florence Owusu (2023)** - Florence Owusu's study "Analysis of Market Volatility and Economic Factors in Emerging Markets" assesses how various economic indicators affect market volatility in emerging markets. The research concludes that inflation rates and currency fluctuations are significant influencers of market volatility, which in turn impact investor decision-making. These findings are crucial for investors looking to navigate the complexities of emerging markets and leverage currency derivatives for risk management **(Owusu, 2023) Huang and Yang (2021)** investigate how macroeconomic factors influence the demand for currency derivatives. They aim to provide empirical evidence on the relationship between macroeconomic variables and the trading activity in the currency derivatives market.**Huang, Y., & Yang, M. (2021).** The impact of macroeconomic factors on the demand for currency derivatives. Journal of International Financial Markets, Institutions & Money, 71, Huang and Yang investigate how macroeconomic factors, such as interest rates, inflation, and GDP growth, influence the demand for currency derivatives, providing empirical evidence on the relationship between these variables and trading activity.**Choi, S., & Lee, J. (2020).** Choi and Lee examine the various factors influencing investor interest in currency derivatives within emerging markets, focusing on market dynamics and investor behavior in less developed financial environments. **Patel, N., & Kumar, V. (2022).** Patel and Kumar explore how behavioral finance theories, such as risk tolerance and investor sentiment, impact trading in currency derivatives, providing an empirical analysis of investor behavior.**Smith, R., & Johnson, K. (2019).** Smith and Johnson investigate how market volatility affects investor behavior and trading strategies in currency derivatives, highlighting the relationship between market fluctuations and trading volume.**Kroll, H., & Davis, E. (2020).** Kroll and Davis provide a comprehensive guide on advanced currency derivatives, focusing on theoretical and practical aspects of trading these financial instruments.**Merton, R. C., & Bodie, Z. (2018).** Merton and Bodie offer a broad overview of financial markets, including the role of currency derivatives, discussing market theory and financial systems in relation to derivatives trading.

- **Bank for International Settlements. (2022).**

This report provides detailed data on global trading volumes and trends in currency derivatives, offering insights into how economic conditions and market practices influence trading activity. **World Bank. (2021).**

The World Bank's report discusses global economic conditions and their impact on financial markets, including currency derivatives, providing context for investor behavior during economic shifts. **Wong, T. (2023, March 5).** Wong outlines current trends in currency derivatives trading, focusing on what investors should be aware of regarding market developments and trading strategies. **The Economist. (2023, April 10).**

This article discusses the evolving role of currency derivatives in investment portfolios, highlighting changes in the investment landscape due to derivative instruments.**Chen, L., & Zhang, X. (2022).** Chen and Zhang analyze how volatility spillovers from other financial markets affect investor reactions and trading strategies in currency derivatives.**Lee, C., & Park, J. (2021).** Lee and Park explore the dual roles of currency derivatives as tools for hedging risk and speculative investment, providing insights into how these roles influence investor behavior. **Ghosh, A., & Ray, S. (2020).** Ghosh and Ray examine how currency derivatives are used for risk management in emerging economies, focusing on practical applications and market trends.**Nguyen, T., & Tran, H. (2019).** Nguyen and Tran investigate the role of currency derivatives in enhancing portfolio diversification, analyzing their impact on risk and return profiles. **Baker, S., & Davis, A. (2022).** Baker and Davis explore the influence of investor sentiment on trading decisions in the currency derivatives market, providing empirical evidence of sentiment-driven trading patterns. **Miller, D., & Thompson, J. (2021).** Miller and Thompson assess how currency derivatives contribute to market efficiency in developed markets, focusing on their role in price discovery and liquidity.**Gordon, A., & Wilson, R. (2020).** Gordon and Wilson examine how geopolitical risks affect trading in currency derivatives, highlighting the relationship between geopolitical events and market volatility. **Davis, K., & Patel, M. (2021).** Davis and Patel investigate how changes in financial regulations affect the currency derivatives markets, analyzing the implications for investor behavior and market stability.**Johnson, M., & Carter, L. (2022).**

Johnson and Carter explore how technological advancements, such as algorithmic trading and electronic platforms, impact

trading strategies and investor participation in currency derivatives.**Kumar, S., & Singh, P. (2021).** Kumar and Singh provide an analytical approach to understanding the dynamics of exchange rates and their impact on currency derivatives markets, offering insights into price movements and trading strategies.

Research Methodology

The nature of research carried out is exploratory in nature and of quantitative type. The sources of data collection is both primary and secondary. Primary data is collected from a survey conducted using questionnaire. Secondary data is collected from journals, articles, research papers and websites. The Sampling method used here is Snowball sampling method. This study is related to the investigation on the factors affecting Trader's or investor's decision of investing in currency derivatives.

3.0 Research Objective:

To know the driving attributes of retail investors in currency derivatives.

- To know the reasons why Indian investors are less inclined towards currency derivatives as an investment option.
- To know the factors that are going to be most helpful in boosting the currency derivative investment/trading in India.

3.1 Scope of the Study:

In Indian financial market there are a number of financial instruments available for investors. Some are risky, and others are risk free assets. Some of them are liquid and marketable while others are illiquid. The investor broadly has three objectives i.e. maximization of return, minimization of risk or hedge against inflation.

The investor has to choose the right avenue among these, depending upon their risk-taking appetite. The study aims at understanding investor's behavior when it comes to making investment in the derivative market.

The focus of the study is on the driving factors considering Indian currency derivative market and is restricted to retail investors.

This study thus leaves a lot of scope for researcher to investigate various factors namely hedging, arbitrage, portfolio diversification, volatility, speculation considered by the investors while investing into the currency derivative market. of small retail investors in Delhi NCR.

3.2 Rationale of Study:

There are a lot of investment avenues available today in the financial market for an investor with an investable surplus. He can invest in bank deposits, corporate debentures, and bonds where there is low risk but low return. He may invest in Stock of companies or in mutual funds of various companies. So this paper emphasises on understanding the idea of the retail investor behind investing in the currency derivative.

Since the last few years investment in the derivative market for options, futures and swap is considered safe investment. But at the same time investors need detailed study or prospects of the market.

Derivative market has seen a lot of changes in past few years with multinational companies coming into the country, bringing in their professional expertise in managing funds worldwide.

3.3 Sources of Data Collection:

The data collected for this research is mostly primary In nature. The sources of data collection are survey conducted using a questionnaire. And for the secondary data journals, research paper and websites are referred.

3.4 Results & Discussions:

The above bar graphs depict that from all the retail investors surveyed most of the respondents are the investors who are employed. From the rest 24% were students and the remaining 9%were entrepreneurs.

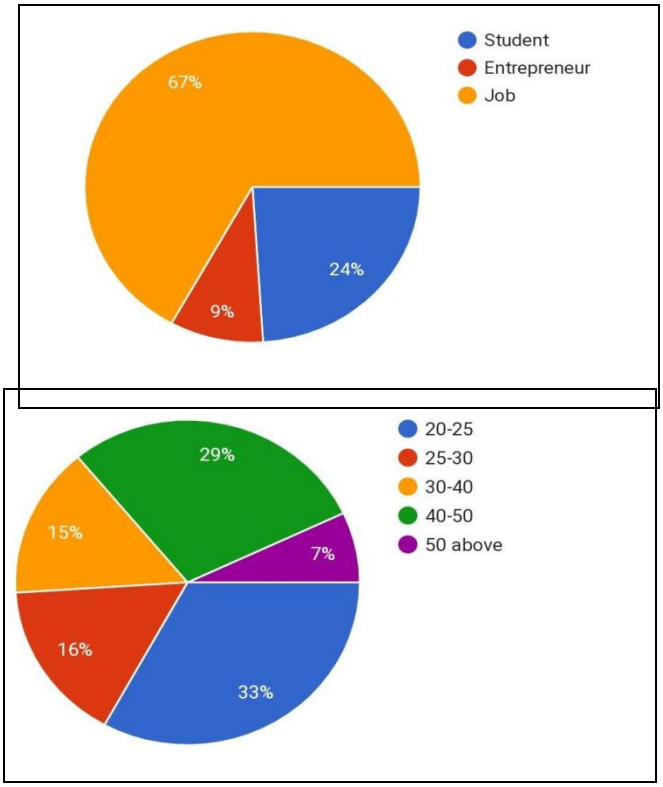


Fig. 4.2 age group of the respondent

The above bar graphs depict that from all the retail investors surveyed there were different age groups that were involved in the survey. 33% respondents were from the age 20-25 years age group, 29% belonged to the 40-50 year age group, 16% belongedto 25-30 year age group, 15% belonged to 30-40 year age group and the rest 7% belonged to the 50 above age group.

Now there are a lot of factors that drive the trading value in the currency market, it can be the economic situation of the country and many other factors but in this study we are focussing only on the factors that drives an investors interest towards trading in the currency derivatives market and also the factors that drive the traders interest in the backward direction or say making the investor sceptical about investing in the currency market.

Investment in currency derivatives works on the principle of leverage - i.e., investors can take large exposure to derivatives by investing only a fraction of the amount.

Currency derivatives are typically used to hedge systematic or market risks such as currency fluctuations, market movements, interest rate movements and inflation. Currency derivatives provide a cheaper way to reduce risks.

Factors that push the investors interest in a positive direction for trading in currency derivatives will be discussed in this study are hedging, arbitrage, returns, market volatility, portfolio diversification.

Descriptive Statistics

	Mean	Std. Deviation	N
KNOWLEDGE	3.2800	1.00584	100
INTEREST	2.8200	.99879	100

Correlations

		KNOWLEDGE	INTEREST
KNOWLEDGE	Pearson Correlation	1	.232*
	Sig. (2-tailed)		.020
	N	100	100
INTEREST	Pearson Correlation	.232*	1
	Sig. (2-tailed)	.020	
	N	100	100

*. Correlation is significant at the 0.05 level (2-tailed).

Fig. 4.3 correlation between the knowledge of investor & Interest of the investor

The above figure depicts the correlation between the knowledge of the investor and the interest of the investor towards investment in currency derivatives is highly significant since the significance value is 0.020 which is less than the confidence level i.e. 0.05.

Descriptive Statistics

	Mean	Std. Deviation	N
INTEREST	2.8200	.99879	100
HEDGING	3.2700	.99346	100
ARBITRAGE	3.0200	.88740	100
VOLATILITY	3.2200	.93830	100
SPECULATION	3.0100	1.01000	100
PORTDIV	3.1400	1.05428	100

Correlations

		INTEREST	HEDGING	ARBITRAGE	VOLATILITY	SPECULATION	PORTDIV
INTEREST	Pearson Correlation	1	.497**	.597**	.291**	.432**	.475**
	Sig. (2-tailed)		.000	.000	.003	.000	.000
	N	100	100	100	100	100	100
HEDGING	Pearson Correlation	.497**	1	.681**	.553**	.571**	.436**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
	N	100	100	100	100	100	100
ARBITRAGE	Pearson Correlation	.597**	.681**	1	.480**	.586**	.526**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
	N	100	100	100	100	100	100
VOLATILITY	Pearson Correlation	.291**	.553**	.480**	1	.339**	.244*
	Sig. (2-tailed)	.003	.000	.000		.001	.014
	N	100	100	100	100	100	100
SPECULATION	Pearson Correlation	.432**	.571**	.586**	.339**	1	.568**
	Sig. (2-tailed)	.000	.000	.000	.001		.000
	N	100	100	100	100	100	100
PORTDIV	Pearson Correlation	.475**	.436**	.526**	.244*	.568**	1
	Sig. (2-tailed)	.000	.000	.000	.014	.000	
	N	100	100	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Fig. 4.4 correlation between the driving factors and the investor`s interest

The above figure depicts the correlation between arbitrage and the interest of the investor towards investment in currency derivatives is most significant since the significance value is 0.000 which is less than the confidence level i.e. 0.01. and Pearson's correlation factor's value as 0.597 which is the highest among all the factors.

Then are the factors hedging , speculation and portfolio diversification which are almost equally significant (with Pearson's coefficient values as 0.497, 0.432, 0.475 respectively) to the interest of the investor.

The market volatility however, is the least significant or can be said of no significance to the investor's interest with a significance value of 0.03 which is less the level of confidence i.e. 0.01 and the Pearson's correlation value is also comparatively low with a value of 0.291.

Fig. 4.5 Regression Analysis

The above figure depicts the significance of the independent factors i.e. hedging, arbitrage , speculation, portfolio diversification and volatility to the dependent factor Interest of the investor towards currency derivative.

In the above figure it can be clearly seen that arbitrage and hedging are equally significant to the investor's interest with significance value of 0.02 which is clearly less then confidence level value 0.05.

Portfolio diversification is the next significant factor to the investor's interest towards currency derivatives with a significance value of 0.025 which is also less then the confidence level value 0.05.

From the above it can also be depicted that factors speculation and volatility are not significant as the significance values (.735 & .717) are way more than the confidence level value i.e. 0.05.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	-.111	.385		-.289	.773	-.876	.654
	HEDGING	.319	.101	.285	3.174	.002	.120	.519
	ARBITRAGE	.365	.112	.330	3.245	.002	.142	.588
	SPECULATION	.035	.102	.035	.339	.735	-.168	.237
	PORTDIV	.210	.092	.222	2.279	.025	.027	.394
	VOLATILITY	-.035	.096	-.033	-.364	.717	-.225	.155

a. Dependent Variable: INTEREST

Regression

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	VOLATILITY, PORTDIV, HEDGING, ARBITRAGE, SPECULATION[b]	.	Enter

a. Dependent Variable: INTEREST
b. All requested variables entered.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.658[a]	.434	.403	.77143	.434	14.391	5	94	.000

a. Predictors: (Constant), VOLATILITY, PORTDIV, HEDGING, ARBITRAGE, SPECULATION

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	42.820	5	8.564	14.391	.000[b]
	Residual	55.940	94	.595		
	Total	98.760	99			

a. Dependent Variable: INTEREST
b. Predictors: (Constant), VOLATILITY, PORTDIV, HEDGING, ARBITRAGE, SPECULATION

Fig. 4.6 factors for less inclination of investors towards currency derivatives

From the above figure it can be depicted that less popularity of currency derivative as an investment option is a major reason for less inclination of investors towards currency derivatives. Lack of understanding and lack of government initiatives are another reasons for the same.

4.0 Recommendations:

- Effort should be made to increase the liquidity in the market by introducing cross currency pairs and by opening ways for other players like foreign institutional investors.
- Improving investors knowledge by introducing programs for the same will be helpful in raising the investors in the currency market. The investor should be taught about the advantages of investing in currency derivatives such as currency derivative is the cheap option for reducing risk as it works on the concept of leverage.
- Efforts should be made to change the perception of investors for currency derivatives as an instrument to reduce risk rather than just an option for speculation.
- Government should take initiatives for educating people about the stock market and derivatives. Government should organize seminars and campaigns meant to educate traders about currency market.

5.0 Conclusions:

- Since the objective of the study was to figure out the driving factors for trading in the currency market, through this study we figured out that arbitrage acts as the main driving factor for investment in currency market for the retail investors.
- The reason for investors choosing to invest in currency derivatives to hedge their funds or for the reason of arbitraging is, speculation is a comparatively riskier option and returns are moderate and uncertain as there are systematic risks associated too.
- Since systematic risks are the main reasons why Investors show interest in currency derivatives. They prefer investing in currency derivatives for the reason of hedging their funds, arbitraging and portfolio diversification as it helps the investor in reducing the systematic risks such as currency fluctuations, fluctuating interest rates and inflation.
- Lack of knowledge about the currency derivatives is a major factor that reduces the investors interest towards currency trading. Improving the knowledge of investors about the currency market will surely contribute to increase the investors interest towards trading in the currency market.
- Relaxation in SEBI norms in terms of lot size and percentage margins will spurt a rise in currency derivatives trading.

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