Currency Derivatives

Contract Specifications

Contract Specifications for Japanese Yen - INR

Futures Contract Specification	
Symbol	JPYINR
Instrument Type	FUTCUR
Unit of trading	1 (1 unit denotes 100000 YEN)
Underlying	JPY
Quotation/Price Quote	Rs per 100 YEN
Tick size	0.25 paise or INR 0.0025
Trading hours	Monday to Friday **9:00 a.m. to 5:00 p.m.**
Contract trading cycle	12 month trading cycle. For weekly contracts - 5 serial weekly contracts expiring on Friday excluding expiry week wherein monthly contracts expires.
Last trading day	Two working days prior to the last business day of the expiry month. For weekly contracts – Every Friday of the week excluding expiry week wherein monthly contracts expires. In case the Friday is a trading holiday, the previous trading day shall be the expiry/last trading day. All contracts shall expire at the 12:30 pm. on the expiry day.
Final settlement day	Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for Interbank Settlements in Mumbai.
Base price	Theoretical price on the 1st day of the contract. On all other days, DSP of the contract.
Price operating range	**Tenure upto 6 months** +/-3 % of base price **Tenure greater than 6 months** +/- 5% of base price
Position limits	Position Limit
Settlement	**Daily settlement:** T + 1 **Final settlement:** T + 2
Mode of settlement	Cash settled in Indian Rupees
Daily settlement price (DSP)	DSP shall be calculated on the basis of the last half an hour weighted average price of such contract or such other price as may be decided by the relevant authority from time to time.
Final settlement price (FSP)	RBI reference rate

Options Contract Specification	
Symbol	JPYINR
Instrument Type	OPTCUR
Unit of trading / Market Lot	1 (1 unit denotes 100000 JPY)
Underlying	JPY – Indian Rupee (JPY-INR) spot rate
Type of Option	Premium styled European Call and Put Options
Quotation/Price Quote	Premium quoted in INR
Tick size	0.25 paise (or INR 0.0025)

Strike Price	Twelve in-the-money, Twelve out-of the-money and One near-the-money strikes would be provided for all available contracts for both call and put options (25 CE and 25 PE)
Tick size Interval	INR 0.2500
Price operating range	Contract specific price range based on the delta of the option contract
Position limits	Position Limit
Trading hours	Monday to Friday **9:00 a.m. to 5:00 p.m.**
Contract trading cycle	Three serial monthly contracts followed by three quarterly contracts of the cycle March/June/September/December. For weekly contracts - 5 serial weekly contracts expiring on Friday excluding expiry week wherein monthly contracts expires.
Expiry/ Last trading day	Two working days prior to the last business day of the expiry month. For weekly contracts – Every Friday of the week excluding expiry week wherein monthly contracts expires. In case the Friday is a trading holiday, the previous trading day shall be the expiry/last trading day. All contracts shall expire at the 12:30 pm. on the expiry day.
Exercise at Expiry	All in-the-money open long contracts shall be automatically exercised at the Final Settlement Price (FSP) and assigned on a random basis to the open short positions of the same strike and series
Final settlement day	Last working day (excluding Saturdays) of the expiry month.
Price operating range	A contract specific price range based on its delta value is computed and updated on a daily basis
Final Settlement price	RBI Reference Rate on the date of expiry of the contract. The last working day will be the same as that for Interbank Settlements in Mumbai.
Mode of settlement	Cash settled in Indian Rupees
Settlement of Premium	Premium to be paid by the buyer in cash on T+1 day
Final settlement	T+2 day

Hedging Scenarios

Hedging against Indian Rupee appreciation

Suppose an Indian IT exporter receives an export order worth, say, 100,000 from a European Telecom major with the delivery date being in 3 months time. At the time when contract is placed, the Euro is worth say Rs.64.05 in the spot market, while on MSE a futures contract for an expiry date that matches with order payment date is trading, say, at Rs.64. This puts the value of the order, when placed, at Rs.6,405,000. However, if the domestic exchange rate appreciates significantly (to Rs.63.20) when the order is paid for (which is one month after the delivery date), the firm would receive only Rs.6,320,000 rather than Rs.6,405,000.

To insure against such losses, the firm can, at the time it receives the order, can enter into 100 Euro futures contract of 1000 each to sell at Rs.64 a Euro, which involves contracting to sell a foreign currency on expiry date at the agreed exchange rate. Suppose on payment date the exchange rate is, say, Rs.63.20, the exporter would receives only Rs.6,320,000 on selling the Euro in the spot market, but gains Rs. 80,000 (i.e. 64 - 63.20 * 100 * 1000) in the futures market. Thus, overall the firm receives Rs.6,400,000 and protects itself from the sharp appreciation of domestic currency against Euro.

In the short term, firms can make gains or losses from hedging. But the basic purpose of hedging is to protect against excessive losses and to benefit from knowing exactly how much it was going to get from its export deal to avoid the uncertainty associated with future exchange rate movements.

Hedging against Indian Rupee depreciation

An organic chemicals dealer in India placed an import order worth, say, 100,000 with a German manufacturer. The current spot rate of Euro is, say, Rs.64.05 and at this rate the value of the order is Rs.6,405,000. The importer is worried about sharp depreciation of Indian Rupee against Euro in coming months when the payment is due and brought 100 Euro futures contract (1000 each) on MSE, say, at Rs.64 a Euro. Suppose, at expiry date, Rupee depreciated to Rs.65 the importer would have to pay Rs.6,500,000, but he would gain Rs.100,000 (i.e. Rs.65 - 64 * 100 * 1000) from the futures market and the resultant outflow would be only Rs.6,400,000.

In the short term, firms can make gains or losses from hedging. But the basic purpose of hedging is to protect against excessive losses and to benefit from knowing exactly how much it was going to pay for the import order to avoid the uncertainty associated with future exchange rate movements.