

Currency Derivatives

Contract Specifications

Contract Specifications For USD - INR

Futures Contract Specification	
Symbol	USDINR
Instrument Type	FUTCUR
Unit of trading	1 (1unit denotes 1000 USD)
Underlying	USD
Quotation/Price Quote	Rs. per USD
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	USDINR
Instrument Type	OPTCUR
Unit of trading / Market Lot	1 (1unit denotes 1000 USD)
Underlying	US Dollar – Indian Rupee (USD-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 Interval	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)
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.
Position limits	Position Limit
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

Exchange-traded currency futures are used to hedge against the risk of rate volatilities in the foreign exchange markets. Here, we give two examples to illustrate the concept and mechanism of hedging:

Example 1:

Suppose an edible oil importer wants to import edible oil worth USD 100,000 and places his import order on July 15, 2008, with the delivery date being 4 months ahead. At the time when the contract is placed, in the spot market, one USD was worth say INR 44.50. But, suppose the Indian Rupee depreciates to INR 44.75 per USD when the payment is due in October 2008, the value of the payment for the importer goes up to INR 4,475,000 rather than INR 4,450,000. The hedging strategy for the importer, thus, would be:

Current Spot Rate (15th July '08): Buy 100 USD - INR Oct '08 Contracts on 15th July '08	44.5000 $(1000 * 44.5000) * 100$ (Assuming the Oct '08 contract is trading at 44.5500 on 15th July, '08)
Sell 100 USD - INR Oct '08 Contracts in Oct '08 Profit/Loss (futures market)	44.7500 $1000 * (44.75 - 44.55) * 100 = 20,000$
Purchases in spot market @ 44.75 Total cost of hedged transaction	$44.75 * 100,000$ $100,000 * 44.75 - 20,000 = \text{INR } 4,455,000$

Example 2:

A jeweller who is exporting gold jewellery worth USD 50,000, wants protection against possible Indian Rupee appreciation in Dec' 08, i.e. when he receives his payment. He wants to lock-in the exchange rate for the above transaction. His strategy would be:

One USD - INR contract size	USD 1,000
Sell 50 USD - INR Dec '08 Contracts (on 15th Jul '08)	44.6500
Buy 50 USD - INR Dec '08 Contracts in Dec '08	44.3500

Sell USD 50,000 in spot market @ 44.35 in Dec '08 (Assume that initially Indian rupee depreciated , but later appreciated to 44.35 per USD as foreseen by the exporter by end of Dec '08)	$50 * 1000 * (44.65 - 44.35)$ $= 0.30 * 50 * 1000$ $= \text{INR } 15,000$
Profit/Loss from futures (Dec '08 contract)	

The net receipt in INR for the hedged transaction would be:

$50,000 * 44.35 + 15,000 = 2,217,500 + 15,000 = 2,232,500$.

Had he not participated in futures market, he would have got only INR 2,217,500. Thus, he kept his sales unexposed to foreign exchange rate risk.