



EXCHANGE INDUSTRY IN INDIA
CURRENCY FUTURES

December 2008



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FT KNOWLEDGE MANAGEMENT

KNOWLEDGE *for* MARKETS

Equities • Debt • Commodities • Currency • Banking • Financial Services
FINANCIAL EDUCATION • TRAINING • CERTIFICATION • CONSULTANCY • RESEARCH • ADVISORY

The exchange industry in India is becoming more vibrant and dynamic. Though the country's first stock exchange came into being in 1875, India has witnessed rapid growth in the securities markets industry following the liberalization of the financial sector.

A key factor governing the growth of the exchange industry in India is the great scope for securities issuance and trading. The growth in equities, equities derivatives, and commodities markets has led to the emergence of a new generation of financial institutions.

Financial Technologies heralded the introduction of trading platforms for multi-asset classes, where it commands 80% share of the market. The common front solutions provided by Financial Technologies are most favoured among the broking community.

Multi Commodity Exchange, promoted by Financial Technologies, emerged as the leader in commodities futures trading, accounting for 80% of the market share in India, and has assumed global leadership in the futures trading of certain important commodities such as gold, silver, and oil futures. MCX is among the top 10 commodities exchanges globally in terms of total turnover.

MCX-SX is the new generation stock exchange promoted by Financial Technologies and Multi Commodity Exchange. Promoted as India's New Stock Exchange, MCX-SX is given approval by the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) to offer trading in USD/INR Currency Futures.

Within a short span of two months, MCX-SX has overtaken its competitors in several aspects of the currency derivatives segment. MCX-SX has demonstrated rapid growth in most of the performance indicators of the currency futures segment.

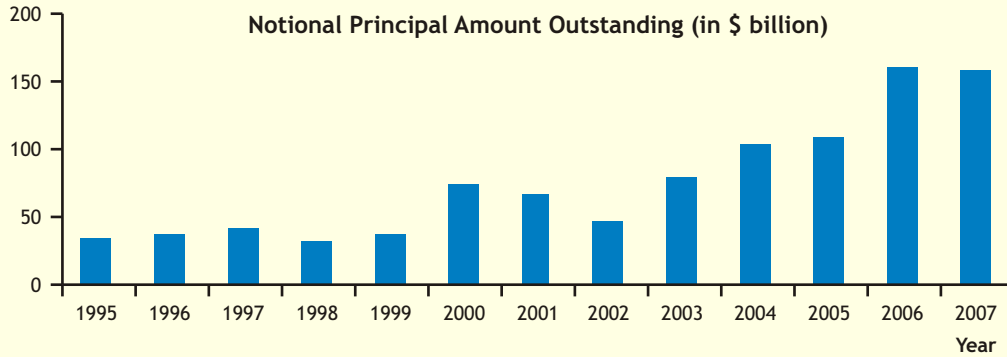
Global View

Worldwide, investor interest in exchange-traded currency derivatives is growing. In the background of growing volatility in the foreign exchange market, exchange-traded currency derivatives will assume significance along with the OTC market, in which most of the forex derivatives are concentrated at present. In several countries, both developed and emerging, exchange-traded currency derivatives are showing rapid growth. In the emerging market, turnover in exchange-traded futures is quite significant in countries like Korea and Turkey.

In this background, great scope exists in India for the growth of exchange-traded currency derivatives. India's accelerating economic growth, as also its growing integration into the global financial system that is prone to volatilities across the markets, will require robust risk management processes and adequate hedging opportunities, which the exchange-traded currency derivatives market will provide with greater efficiency and effectiveness. MCX-SX is gearing to meet the expectations of the exchange-traded currency derivatives market by designing efficient platforms for trading and engaging in market development measures.

EXCHANGE-TRADED CURRENCY FUTURES: MAJOR EXCHANGES				
Exchange (Years)	Volume Traded (No of Contracts)		Notional Value (USD millions)	
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Chicago Mercantile Exchange	139 793 600	110 338 043	17 358 407	13 399 645
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Asia Pacific				
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Korea Exchange	6 235 967	3 158 049	313 451	158 463
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LIFFE	6 005	8 807	158	216
JSE	199 633	0	205	0
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Global Exchange-Traded Currency Futures



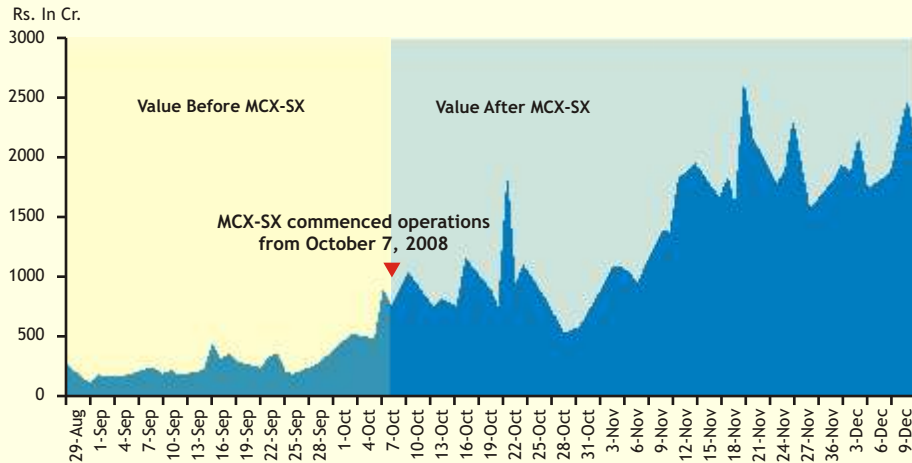
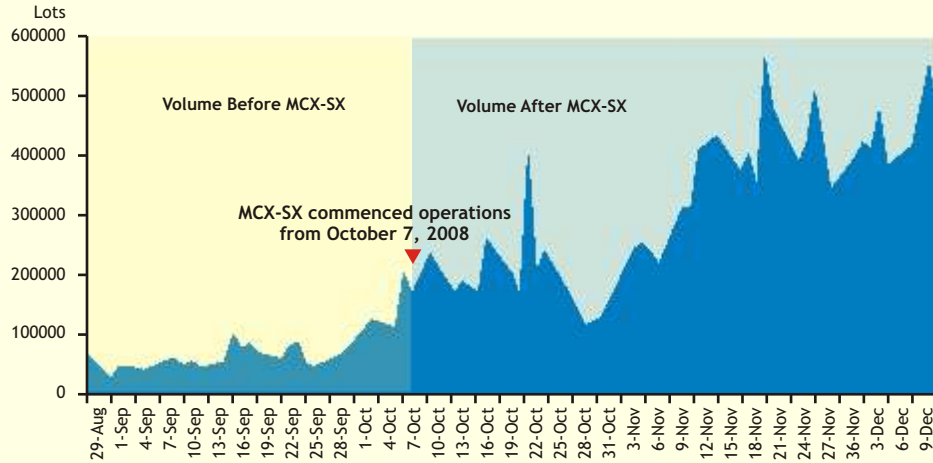
Currency futures in India

The launch of MCX-SX Currency Futures has expanded the volumes in a significant manner. Though currency futures trading on one exchange commenced on August 29, 2008, the volumes of trading remained subdued till October 6, 2008. However, with the beginning of the currency futures trading on MCX-SX on October 7, the volumes began to surge significantly. Similarly, in value terms too, currency futures segment witnessed sharp growth after MCX-SX commenced trading.

The market-friendly initiatives of MCX-SX along with its extensive training, education, and awareness campaigns caught the attention of a wide range of users.

In this background, due to the ongoing thrust on investor education and superior technology solutions governing trading operations, it is expected that the currency derivatives segment will grow significantly in India.

Growth in Indian Currency Markets



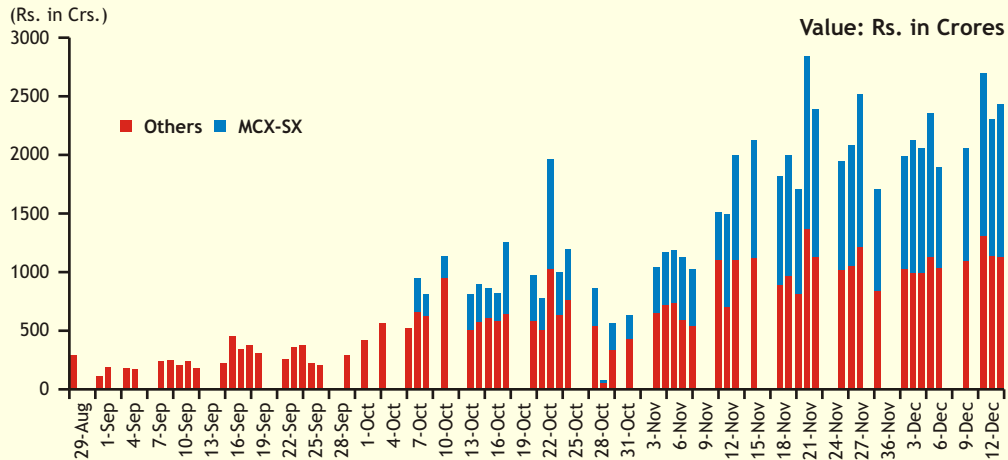
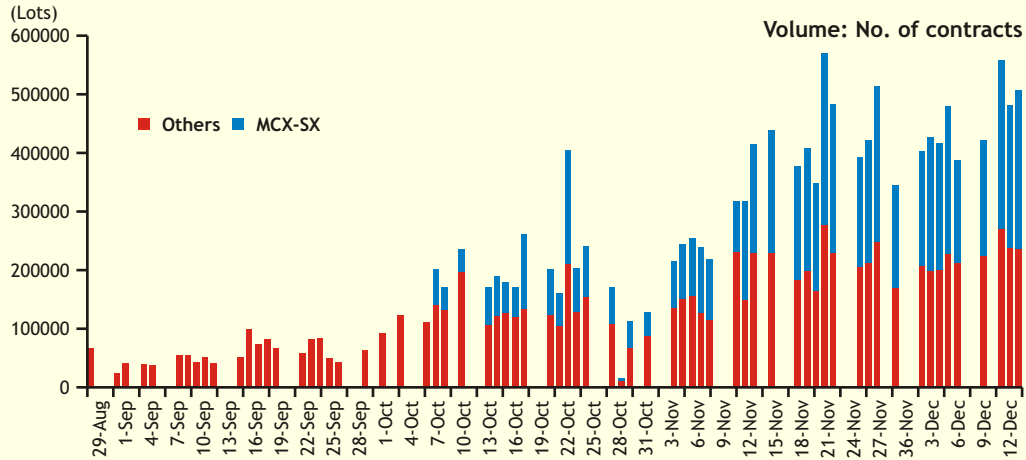
Business @ MCX-SX

MCX-SX has been recording consistent growth in volume of trading in currency futures. From the time it commenced its operations, volumes have been surging continuously, accounting for a significant share in the total market volumes. On several days, volumes registered by MCX-SX are much higher than the nearest competitor and several times over the next competitor.

Member development initiatives of MCX-SX, mainly in the form of consultations, training, and workshops as also dissemination of information on real time basis, are contributing to the sustained growth of the business at MCX-SX.

Moreover, concerted efforts of MCX-SX are promoting interest in currency futures trading in a large number of cities in India, making it a nationwide market.

Business at MCX-SX



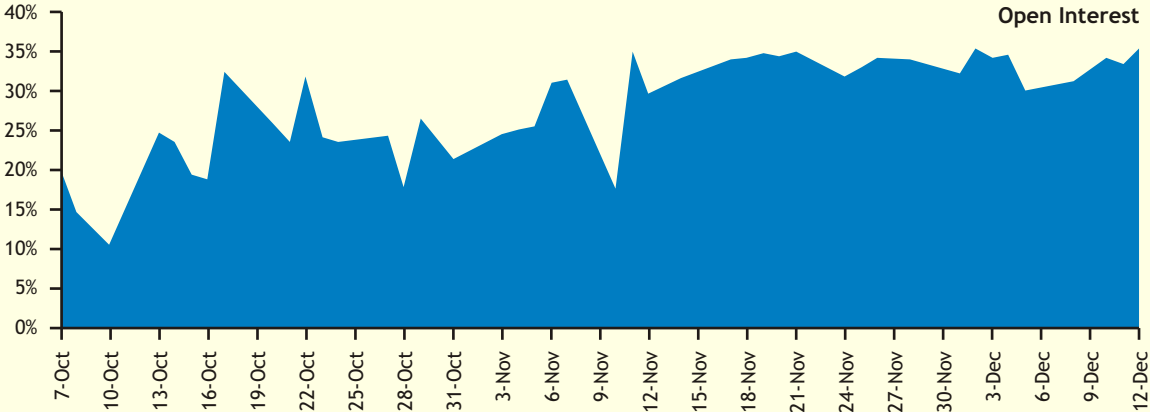
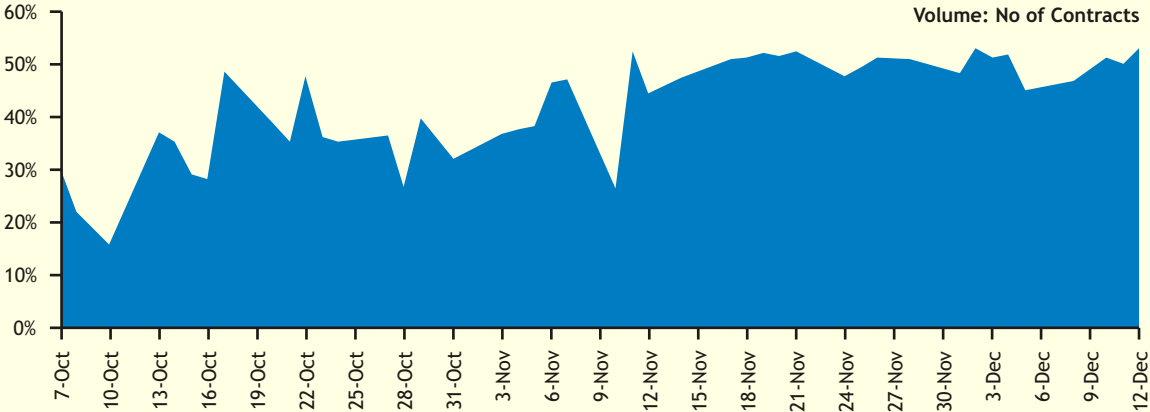
Market Share

For a new entrant, MCX-SX holds a record for capturing almost 30 percent of the market share in trading volumes in the very first day it debuted. It gradually increased its market share to over 50% by the second month, making it yet another record.

In the background of strong institutions prevailing in the Indian securities markets and the near monopoly of one exchange in equity exchange domain for almost a decade, gaining market share of over 50% in the second month of commencement of trading by MCX-SX is a major landmark in the Indian securities markets.

MCX-SX has achieved higher market share in the volumes of trading and value, which reflect the superior quality of trading taking place at the Exchange.

Market share of MCX-SX(in %)

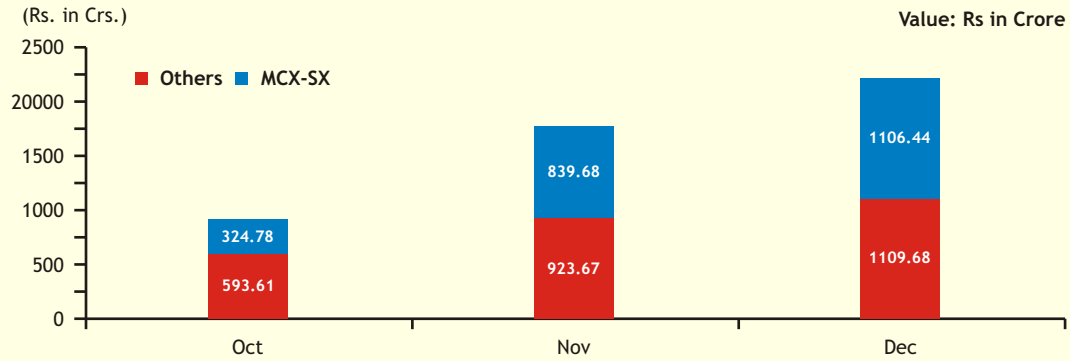
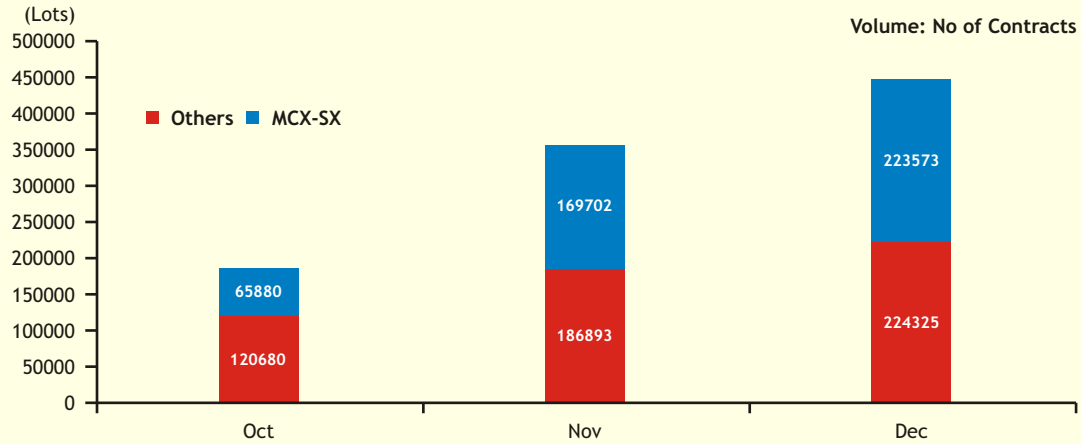


Consistent Growth

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With extensive education and investor training that MCX-SX has undertaken nationwide, the rate of growth is expected to accelerate further in the coming months.

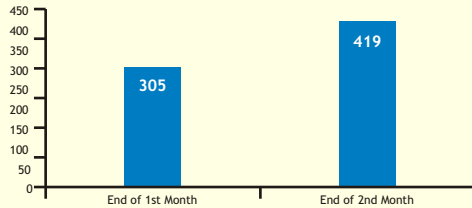
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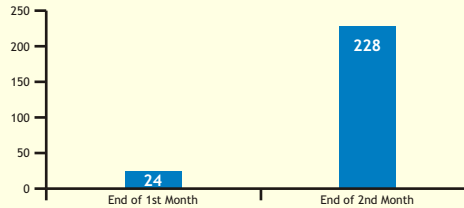
Performance

The First Two Months of Trading (November 7 & December 7, 2008)

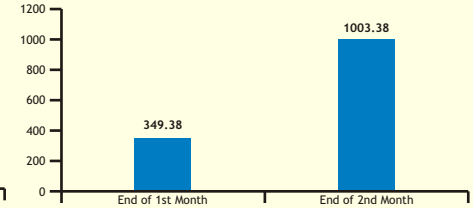
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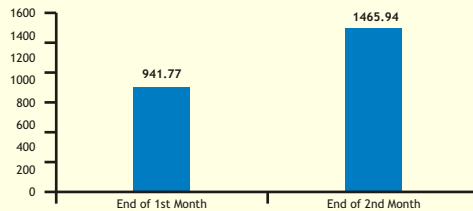
Cities Participated Across India



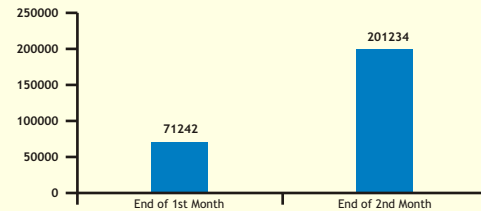
Average Daily Turnover (Rs. Crs.)



Highest Turnover (Rs. Crs.)

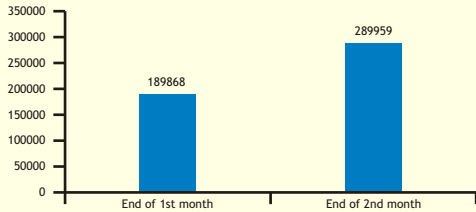


Average Daily Volume (Contracts)

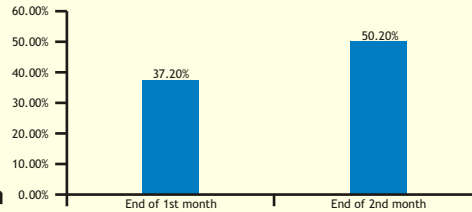


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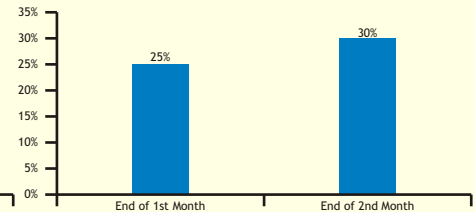
Highest no. of contracts traded (lots)



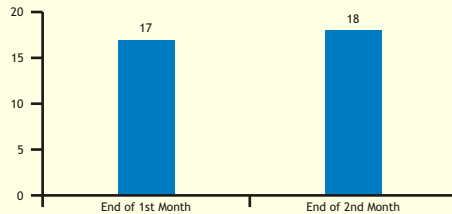
Market share (%)



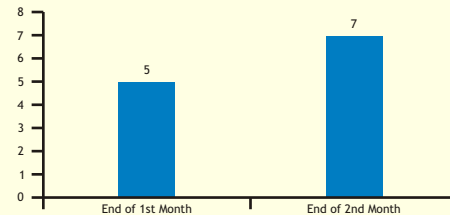
Average % of bank participation



No. of Banks Applied for Membership



No. of Banks Participating



Features of MCX-SX

Currency Futures Segment in Indian Exchanges

SEBI announced introduction of exchange-traded currency futures in India. In addition to the existing exchanges, namely Bombay Stock Exchange and the National Stock Exchange of India Ltd., MCX-SX was also granted permission as a stock exchange to set up currency derivatives segment.

MCX-SX has set up new records and benchmarks

- **Nationwide Membership**
Largest membership interest received amongst Indian stock exchanges
- **Institutional Participation**
Large presence of banks and financial institutions, contributing sizably to trading volumes
- **Technology Prowess**
State-of-the-art technology in trading platforms, backed by efficient solutions
- **Market Leadership**
Since it began functioning, volumes in the currency futures segment has been showing consistent growth, which brought a new dynamism to the currency derivatives segment
- **Productive Partnerships**
MCX-SX partners with leading institutions in economy, finance, trade and industry as also the academia, towards deepening the awareness of the currency derivatives markets, which has great significance for enhancing scope and significance of currency risk management

- **Knowledge Initiatives**

Promoted key principles of Information, Innovation, Education, and Research to promote growth and contribute in the orderly development of the market

Alliances

Signed an MoU with the Federation of Indian Export Organisations. It will help provide vital information on currency futures markets to its over 11,000 members

Information

Developed websites in English, Hindi, and Gujarati to communicate more effectively with the business community. Websites in other regional languages will be launched soon

Innovation

Currency Futures Price Updates through SMS 58888. MCX-SX brought in vibrancy to the market through its innovation processes and procedures

Education

Published *A Primer on Currency Futures*. A Workbook on Currency Futures is forthcoming: How Currency Futures Benefits Various Users. Nationwide education programmes. Collaborations with premier educational institutions and trade organizations in promoting awareness and education on currency futures

Research

Research on global and domestic trends in regard to currency derivatives. Insights on emerging opportunities for the development of markets

Looking Ahead

In the first two months of operation, MCX-SX has moved from the “take-off” stage to “attaining altitudes”, which is reflected in the widening of the geographical reach, increase in volume, broad-basing the membership, and the launch of regional language websites in our continuous pursuit of knowledge dissemination. In the second month of operation itself, MCX-SX reached the highest in terms of volume and value in currency futures. MCX-SX will continue to pursue new standards and benchmarks, both in terms of new business growth and deepening of the market.

U. Venkataraman,
CEO, MCX-SX

Market development by MCX-SX is made through the four corporate principles: Information, Innovation, Education, and Research. Towards this objective, FT Knowledge Management has designed numerous strategies and solutions to benefit the market intermediation that are helping a great deal in the growth of the exchange-traded currency futures market. Wider dissemination of knowledge on products and processes among all market practitioners will be the key success factor for the sustained growth of currency futures segment.

Dr. Bandi Ram Prasad
President, FT Knowledge Management Company

MCX'SX

India's New Stock Exchange

For Information:

MCX-SX

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Chakala, Andheri East, Mumbai 400 091.

Tel.: +91 22 6731 9000 Fax : +91 22 67269575

Website : www.mcx-sx.com

FT Knowledge Management Company

Exchange Square, First Floor, Suren Road, Chakala

Andheri (East), Mumbai - 400 093, India

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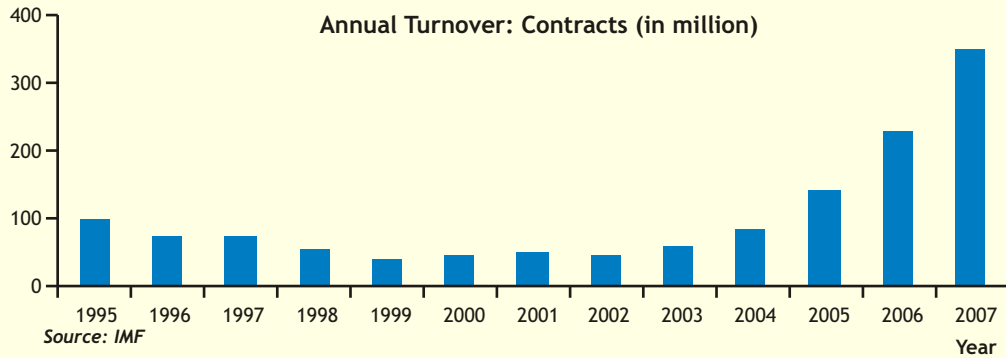
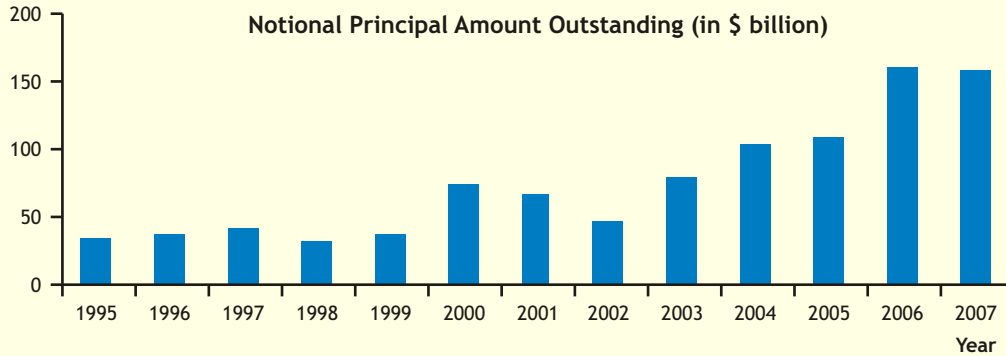
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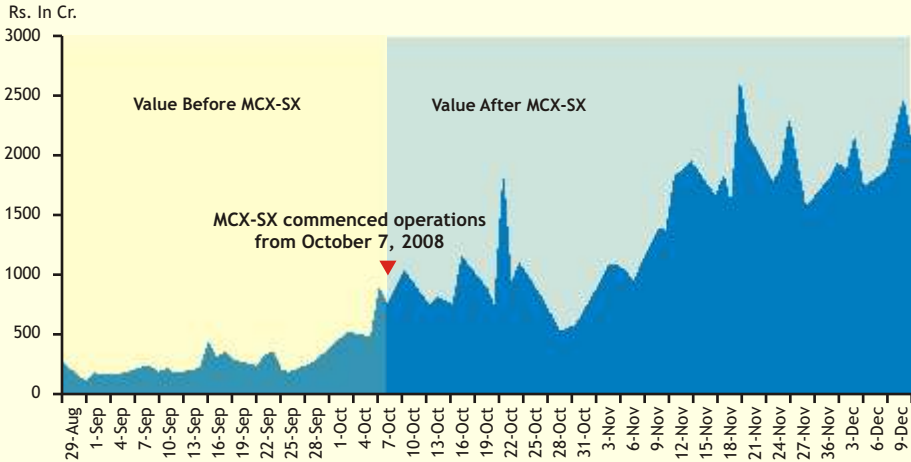
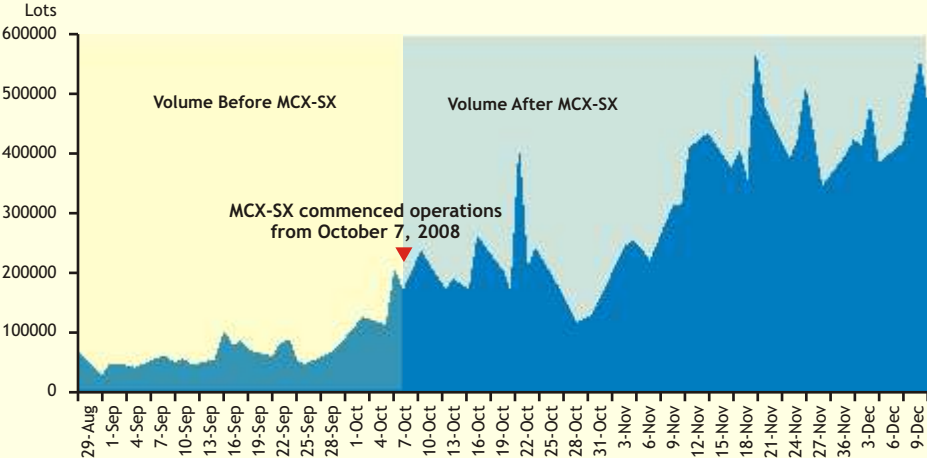
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Growth in Indian Currency Markets



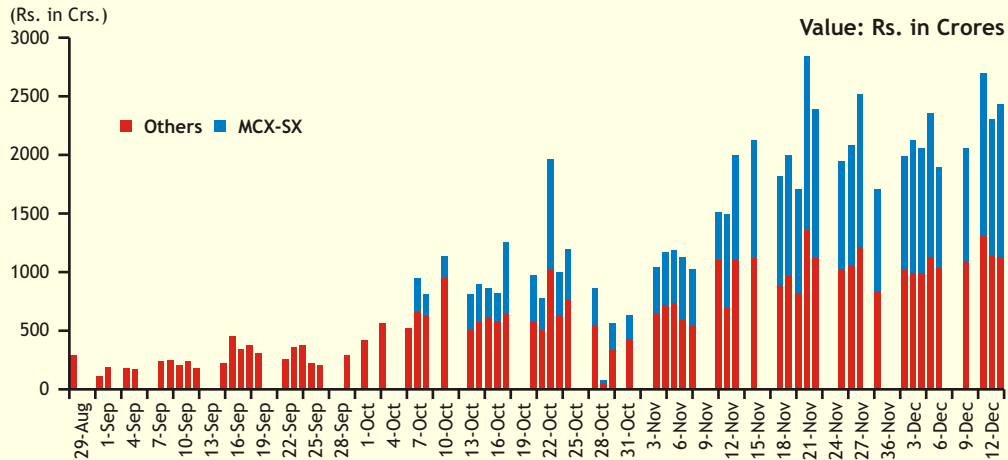
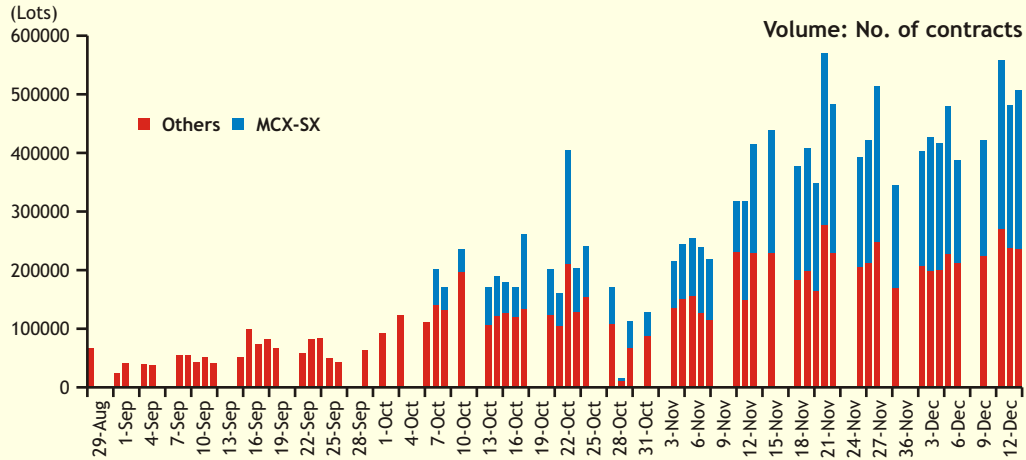
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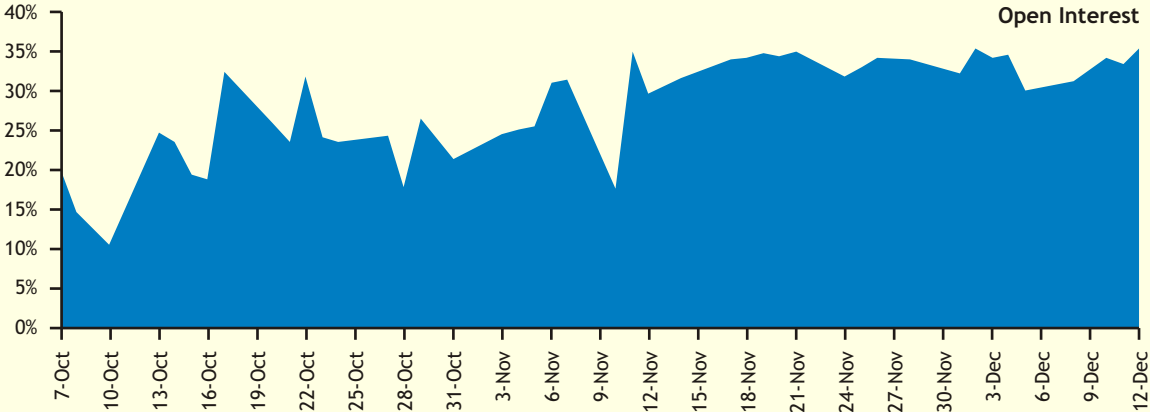
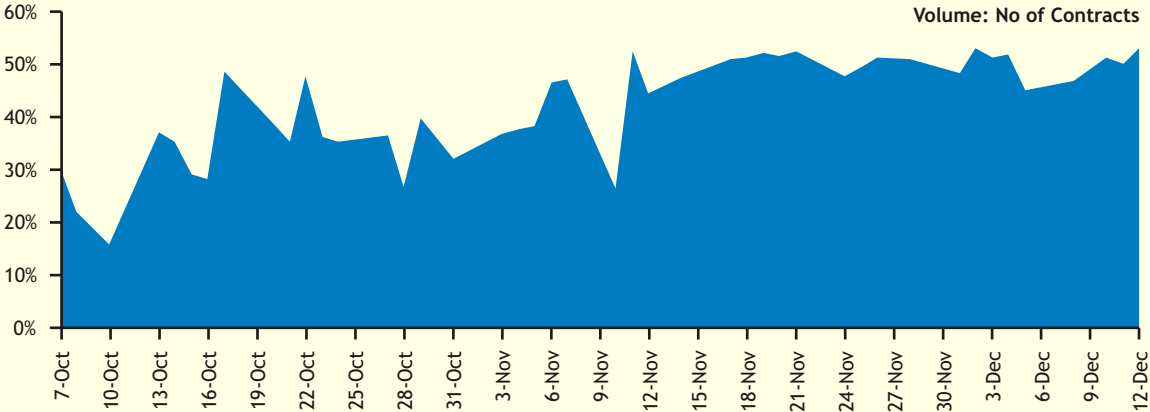
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Market share of MCX-SX(in %)

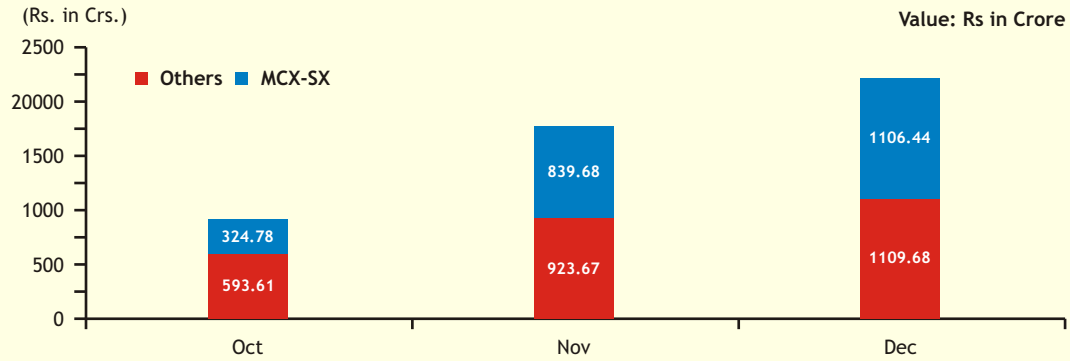
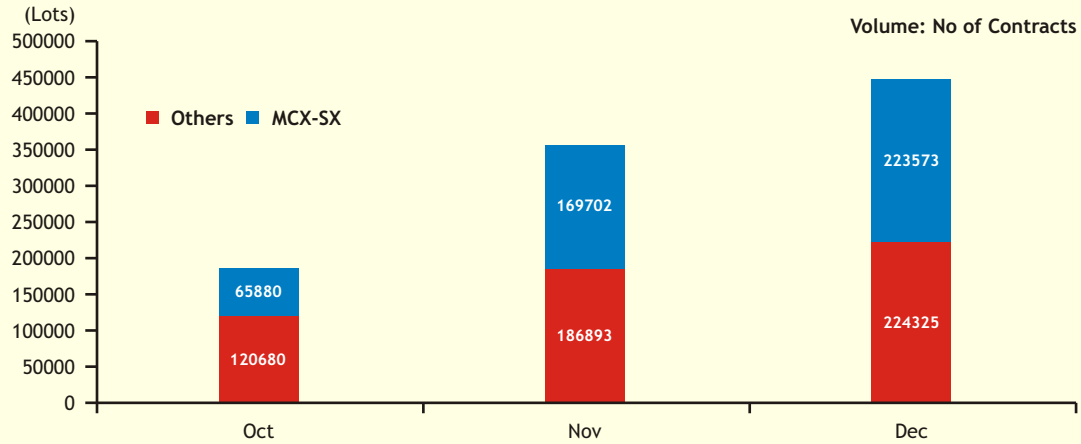


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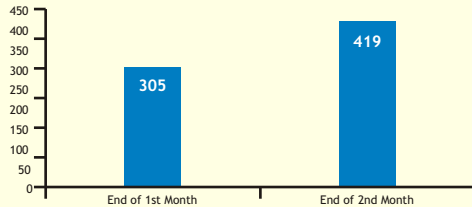
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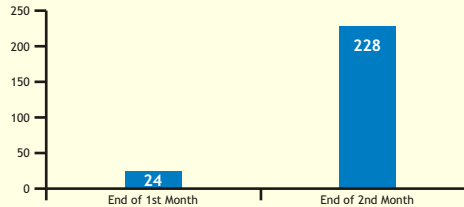
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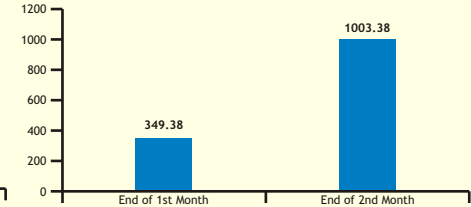
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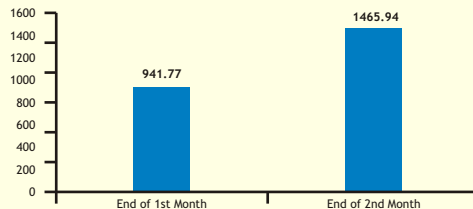
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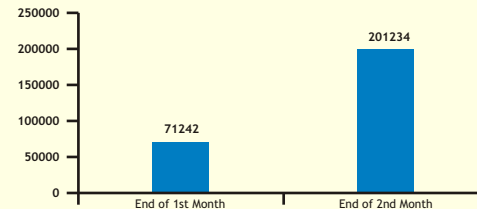
Average Daily Turnover (Rs. Crs.)



Highest Turnover (Rs. Crs.)

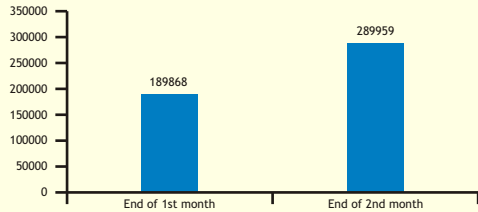


Average Daily Volume (Contracts)

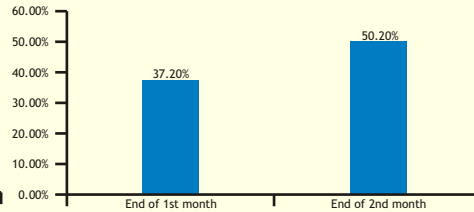


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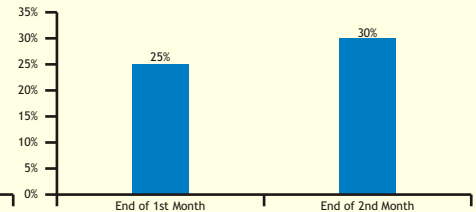
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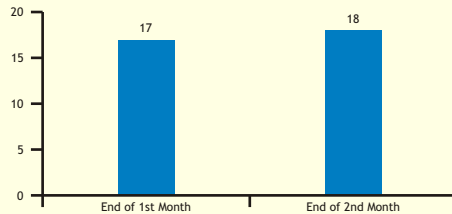
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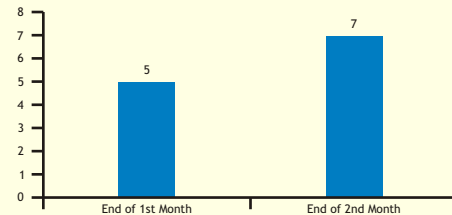
Average % of bank participation



No. of Banks Applied for Membership



No. of Banks Participating



Features of MCX-SX

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Currency Futures Price Updates through SMS 58888. MCX-SX brought in vibrancy to the market through its innovation processes and procedures

Education

Published *A Primer on Currency Futures*. A Workbook on Currency Futures is forthcoming: How Currency Futures Benefits Various Users. Nationwide education programmes. Collaborations with premier educational institutions and trade organizations in promoting awareness and education on currency futures

Research

Research on global and domestic trends in regard to currency derivatives. Insights on emerging opportunities for the development of markets

Looking Ahead

In the first two months of operation, MCX-SX has moved from the “take-off” stage to “attaining altitudes”, which is reflected in the widening of the geographical reach, increase in volume, broad-basing the membership, and the launch of regional language websites in our continuous pursuit of knowledge dissemination. In the second month of operation itself, MCX-SX reached the highest in terms of volume and value in currency futures. MCX-SX will continue to pursue new standards and benchmarks, both in terms of new business growth and deepening of the market.

U. Venkataraman,
CEO, MCX-SX

Market development by MCX-SX is made through the four corporate principles: Information, Innovation, Education, and Research. Towards this objective, FT Knowledge Management has designed numerous strategies and solutions to benefit the market intermediation that are helping a great deal in the growth of the exchange-traded currency futures market. Wider dissemination of knowledge on products and processes among all market practitioners will be the key success factor for the sustained growth of currency futures segment.

Dr. Bandi Ram Prasad
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