A Comparative Study on Selected Foreign Currencies

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INFO

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ABSTRACT

Foreign exchange is the trading of different national currencies or units of account. It is important because the exchange rate, the price of one currency in terms of another, helps to determine a nation’s economic health and hence the well-being of all the people residing in it. The exchange rate is also important because it can help or hurt specific interests within a country: exporters tend to be helped (hurt) by a weak (strong) domestic currency because they will sell more (less) abroad, while consumers are hurt (helped) by a strong currency because imported goods will be more (less) expensive for them. As trade between nations developed, Britain, as the nation with the largest and strongest navy, could spread its commercial interests far and wide. It therefore became the most active trading nation, with a vast empire of colonies.

Keywords: Foreign Exchange, Fixed Deposits, Bank Deposits, Precious Stones, Insurance Policies

Introduction

Hundreds of thousands of people have to deal with foreign currency exchange every day, including expatriates, holidaymakers, professionals on business trips and companies with international dealings. There are nearly 200 currencies in circulation globally, but the vast majority of foreign currency exchange trades involve a comparatively small proportion of them. The most commonly traded currencies are known as the ‘majors’. The major currencies include Pound Sterling, the US Dollar, the Canadian Dollar, the Euro, the Australian Dollar, the New Zealand Dollar, the South African Rand, the Swiss Franc, and the Japanese Yen.

Foreign exchange is the trading of different national currencies or units of account. It is important because the exchange rate, the price of one currency in terms of another, helps to determine a nation’s economic health and hence the well-being of all the people residing in it. The exchange rate is also important because it can help or hurt specific interests within a country: exporters tend to be helped (hurt) by a weak (strong) domestic currency because they will sell more (less) abroad, while consumers are hurt (helped) by a strong currency because imported goods will be more (less) expensive for them.

“Foreign exchange” exists and you have an inkling of what the newspapers are talking about when they mention it, but you really don’t understand the basics of what foreign exchange is and how it works. Here, therefore, is a short “primer” on the basics of foreign exchange.

The term “foreign exchange” basically refers to buying the currency of one country while selling the currency of another country. All nations have their own, different kinds of money (currency). This has existed throughout the ages, probably since the time of the Babylonians. As trading developed between nations, the need to convert one kind of money to another also developed. This is how a formal system of foreign exchange arose.
As trade between nations developed, Britain, as the nation with the largest and strongest navy, could spread its commercial interests far and wide. It therefore became the most active trading nation, with a vast empire of colonies. As a result, Britain’s currency, the pound sterling, became a benchmark to which other currencies were compared (and exchanged) for most of the seventeenth, eighteenth and nineteenth centuries. Today, most currencies are compared to the US Dollar, currently the most active and commercially strong trading nation; many currencies are still “pegged” to the U.S. Dollar for their exchange rate.

Need of the Study
Majority of the investors of India or related or aware about or familiar with the known investments accessible avenues like Fixed Deposits, Bank deposits, Precious stones, Insurance policies, shares these securities are very much familiar to the investors. They don’t have knowledge about the securities like currencies. These currencies may also help them to get returns with less amount of risk provided. They should have sound knowledge of the currencies variations over a period of time again which are the currencies are giving more returns with high it lower risk. This can be understood with detailed analysis of the securities over a period of time hence this study is very much needed for the investors to understand the currencies and its returns, risk, consistency and growth.

Statement of the Problem
Majority of the investors who are aware about only certain investment avenues like Shares, Debentures, Bank deposits, Insurance policies, Gold, Precious stones and Mutual funds now big these they have understood the up and downs of these avenues. This study makes to people to understand the foreign currencies fix average returns over a period of return risk involved in this and what is growth over a period of time this can be studied from this study. This may not be loan to majority of investors to this an opportunity from the investors to understand apart from those loan investment avenues to know the what is the risk return availability risk involved in that consistency of the security this currencies and growth involved in these securities. In these investment of currencies majority of the currencies are giving returns instead of risk involved in that but those the returns are very smaller but there is always consistency in the returns. The investors who are risk our can prefer to make the this kind of investment there is no risk involved in that however the returns may be there may not be that much however returns may be average of it. This study hence an attempt is as been made to under take the study on the performance of selected currencies. This study helps them to give an understanding about returns, risk, consistency, growth, correlation etc this with respect to statement of the problem.

Research Methodology
Research methodology comprises the research design, sample design, sources of data, selection data, various designs and techniques used for analysing the data. The methodology used for the study at hand is as under:

Scope of the Study
The study is confined to the selected currencies for the study. These currencies have a taken for a period of 10 years again the study is based on the available data from the given sources.

Objectives of the Study
To study performance assessment of selected currencies with respect to returns, risk, consistency and Compound Annual Growth of the currencies.

Hypothesis Testing
- $H_0$ (Null hypothesis): There is no significant differences among the currencies
- $H_1$ (Alternative hypothesis): There is a significant differences among the currencies

Limitations of the Study
1. Lack of sufficient time discarded me to do in depth study.
2. This study is restricted to few country Currencies.
3. Non available of relevant unbiased data is a limiting factor for this study.
4. The complete study has been done by using observation method which is based on the secondary data.

Data Analysis and Interpretation
Analysis and Interpretation of data evaluates Return and Risk for selected foreign currencies of Consistency, Compound Annual Growth rate, Correlation, Hypothesis testing and ANOVA.

Return
Return is a profit on an investment. It comprises any change in value of the investment and cash flows which the investor receives from the investment.

ROI = (Net Profit/ Cost of Investment) * 100

Interpretation
Gives the information among the samples of currencies under study Swiss Franc Currency against Indian rupee standstop-one registering annual returns 4.3983 percent.
Which is in the range of 4.3983 to 2.0423. Out of 13 currencies under study 11 currencies have positive returns ranging from 4.3983 to 2.0423.

### Table 1. Return of Selected Foreign Currencies

<table>
<thead>
<tr>
<th>Currencies</th>
<th>Return</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP VS INR</td>
<td>2.767064727</td>
<td>10</td>
</tr>
<tr>
<td>USD VS INR</td>
<td>3.371372744</td>
<td>5</td>
</tr>
<tr>
<td>CAD VS INR</td>
<td>3.345257525</td>
<td>6</td>
</tr>
<tr>
<td>CHF VS INR</td>
<td>4.398373146</td>
<td>1</td>
</tr>
<tr>
<td>HKD VS INR</td>
<td>3.320424499</td>
<td>7</td>
</tr>
<tr>
<td>EUR VS INR</td>
<td>3.08187702</td>
<td>8</td>
</tr>
<tr>
<td>AUD VS INR</td>
<td>2.899706652</td>
<td>9</td>
</tr>
<tr>
<td>SEK VS INR</td>
<td>2.042391702</td>
<td>11</td>
</tr>
<tr>
<td>NZD VS INR</td>
<td>3.4518265</td>
<td>3</td>
</tr>
<tr>
<td>ZAR VS INR</td>
<td>-1.326282716</td>
<td>12</td>
</tr>
<tr>
<td>JPY VS INR</td>
<td>3.526325615</td>
<td>2</td>
</tr>
<tr>
<td>MXN VS INR</td>
<td>-0.790544845</td>
<td>13</td>
</tr>
<tr>
<td>SDG VS INR</td>
<td>3.401596695</td>
<td>4</td>
</tr>
</tbody>
</table>

### Table 2. Risk of Selected Foreign Currencies

<table>
<thead>
<tr>
<th>Currencies</th>
<th>Risk</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP VS INR</td>
<td>8.480315023</td>
<td>7</td>
</tr>
<tr>
<td>USD VS INR</td>
<td>7.992780541</td>
<td>4</td>
</tr>
<tr>
<td>CAD VS INR</td>
<td>6.349785878</td>
<td>2</td>
</tr>
<tr>
<td>CHF VS INR</td>
<td>9.55938318</td>
<td>10</td>
</tr>
<tr>
<td>HKD VS INR</td>
<td>8.156744308</td>
<td>5</td>
</tr>
<tr>
<td>EUR VS INR</td>
<td>9.237744739</td>
<td>9</td>
</tr>
<tr>
<td>AUD VS INR</td>
<td>8.191812688</td>
<td>6</td>
</tr>
<tr>
<td>SEK VS INR</td>
<td>9.79091702</td>
<td>8</td>
</tr>
<tr>
<td>NZD VS INR</td>
<td>10.37144115</td>
<td>11</td>
</tr>
<tr>
<td>ZAR VS INR</td>
<td>13.45424591</td>
<td>13</td>
</tr>
<tr>
<td>JPY VS INR</td>
<td>12.38530205</td>
<td>12</td>
</tr>
<tr>
<td>MXN VS INR</td>
<td>7.067562741</td>
<td>3</td>
</tr>
<tr>
<td>SDG VS INR</td>
<td>6.160367291</td>
<td>1</td>
</tr>
</tbody>
</table>

### Risk

Risk is a term in accounting and finance used to describe the uncertainty that a future event with a favourable outcome will occur. In other words, risk is the probability that an investment will not perform as expected and the investor will lose the money invested in the project. All business decisions and opportunities are based on this concept that future performance and returns are uncertain and rely on many uncontrollable variables.

### Interpretation

Sudan pound has the least risk of 6.1603 followed by Canadian Dollar of 6.3497, Mexican Peso of 7.067, United States Dollar 7.99, Hong Kong Dollar of 8.16, Australian Dollar 8.19, Euro of 9.2377, Swedish krona of 9.79 respectively, rest of the currencies under the study are above 10.

### Consistency

Consistency is one of the analytical tools in evaluating performance of currencies. It is measured by coefficient of variation the higher co-efficient of variations, the more the in consistency and vice versa.

Coefficient of variation = STD Deviation /AVG Return *100

### Interpretation

The most stable currency during the study period is Sudan.
Calculates this rate in terms of percentage.

\[ \text{CAGR} = \left( \frac{\text{Ending value}}{\text{Starting value}} \right)^{\frac{1}{n-1}} - 1 \]

**Interpretation**

Majority of the currencies have not more than Compound Annual Growth Rate of 5 percent, the two currencies have negative growth rate.

**Correlation**

Correlation is a statistical measure that indicates the extent to which two or more variable fluctuate together. A positive correlation indicates the extent to which those variables increase or decrease in parallel, a negative correlation indicates the extent to which one variable increase as the other decreases.

**Interpretation**


New Zealand Dollar and South African Dollar, Kong Dollar and United State Dollar, have almost low degree of positive relation with the currencies under study. Euro currency have strong positive relation with the Swedish Krona and Swiss Franc also have Australian Dollar has quite strong positive relation with New Zealand Dollar.

**Hypothesis Testing**

A t-test is a type of inferential used to determine if there is a significant difference between the means of two groups, which follow a normal distribution and may have unknown variances. At-test is used as a hypothesis testing tool, which allows testing of an assumption applicable to a population.

A t-test looks at the t-statistics, the t-distribution values and the degrees of freedom to determine the statistical significance. To conduct a test with three or more means, one must use an analysis of variance.

**Interpretation**

It is evident from the statistics that there is no significant differences between one currency to another currency under study period hence null hypothesis has been accepted this has become staying for all the currencies which are under study in each case the null hypothesis has been accepted hence there are no significant differences among the currencies with each one under the study period.

<table>
<thead>
<tr>
<th>Currencies</th>
<th>CAGR (%)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP VS INR</td>
<td>2.051449523</td>
<td>12</td>
</tr>
<tr>
<td>USD VS INR</td>
<td>3.076417006</td>
<td>5</td>
</tr>
<tr>
<td>CAD VS INR</td>
<td>3.279219263</td>
<td>4</td>
</tr>
<tr>
<td>CHF VS INR</td>
<td>4.817238965</td>
<td>1</td>
</tr>
<tr>
<td>HKD VS INR</td>
<td>3.01728686</td>
<td>7</td>
</tr>
<tr>
<td>EUR VS INR</td>
<td>3.059716688</td>
<td>6</td>
</tr>
<tr>
<td>AUD VS INR</td>
<td>2.599283659</td>
<td>9</td>
</tr>
<tr>
<td>SEK VS INR</td>
<td>2.183407346</td>
<td>11</td>
</tr>
<tr>
<td>NZD VS INR</td>
<td>2.899266987</td>
<td>8</td>
</tr>
<tr>
<td>ZAR VS INR</td>
<td>-2.252975019</td>
<td>10</td>
</tr>
<tr>
<td>JPY VS INR</td>
<td>3.698431719</td>
<td>2</td>
</tr>
<tr>
<td>MXN VS INR</td>
<td>-0.91358078</td>
<td>13</td>
</tr>
<tr>
<td>SDG VS INR</td>
<td>3.367072387</td>
<td>3</td>
</tr>
</tbody>
</table>

**Chart 3. Consistency calculation on Foreign Currency**

**Chart 4. Calculation of Compound Annual Growth Rate on Foreign Currencies**

Doller incorporation 1.811. It is followed by Canadian Dollar of 1.89. There are 8 currency below 4 ranging from 2 to 5. Rest of the currencies have negative consistency.

**Compound Annual Growth Rate of Selected Foreign Currencies**

Any investment that offers you the benefit of compounding can help you double your investment and build wealth. CAGR shows how much a person's investment grew over a specific period. In other words, it is the average returns an investor has earned on the investments after a given interval say one year. The bank or the financial institution
### Table 5. Calculation of Correlation on Foreign Currencies

<table>
<thead>
<tr>
<th>Name</th>
<th>GBP VS INR</th>
<th>USD VS INR</th>
<th>CAD VS INR</th>
<th>CHF VS INR</th>
<th>HKD VS INR</th>
<th>EUR VS INR</th>
<th>AUD VS INR</th>
<th>SEK VS INR</th>
<th>NZD VS INR</th>
<th>ZAR VS INR</th>
<th>JPY VS INR</th>
<th>MXN VS INR</th>
<th>SDG VS INR</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP VS INR</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USD VS INR</td>
<td>0.32</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CAD VS INR</td>
<td>0.45</td>
<td>0.36</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHF VS INR</td>
<td>0.47</td>
<td>0.41</td>
<td>0.52</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HKD VS INR</td>
<td>0.31</td>
<td>1.00</td>
<td>0.37</td>
<td>0.42</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EUR VS INR</td>
<td>0.60</td>
<td>0.24</td>
<td>0.52</td>
<td>0.79</td>
<td>0.24</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUD VS INR</td>
<td>0.29</td>
<td>-0.28</td>
<td>0.42</td>
<td>0.46</td>
<td>-0.27</td>
<td>0.45</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SEK VS INR</td>
<td>0.56</td>
<td>-0.07</td>
<td>0.50</td>
<td>0.69</td>
<td>-0.06</td>
<td>0.81</td>
<td>0.60</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>NZD VS INR</td>
<td>0.45</td>
<td>-0.24</td>
<td>0.19</td>
<td>0.38</td>
<td>-0.24</td>
<td>0.42</td>
<td>0.82</td>
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<td>1.00</td>
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</tr>
<tr>
<td>ZAR VS INR</td>
<td>0.12</td>
<td>-0.04</td>
<td>0.36</td>
<td>0.31</td>
<td>-0.03</td>
<td>0.39</td>
<td>0.30</td>
<td>0.35</td>
<td>0.29</td>
<td>1.00</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JPY VS INR</td>
<td>0.20</td>
<td>0.56</td>
<td>0.36</td>
<td>0.58</td>
<td>0.56</td>
<td>0.42</td>
<td>0.22</td>
<td>0.34</td>
<td>0.34</td>
<td>0.19</td>
<td>1.00</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MXN VS INR</td>
<td>0.34</td>
<td>0.29</td>
<td>0.56</td>
<td>0.35</td>
<td>0.28</td>
<td>0.27</td>
<td>0.12</td>
<td>0.32</td>
<td>0.07</td>
<td>0.07</td>
<td>0.07</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>SDG VS INR</td>
<td>0.45</td>
<td>0.67</td>
<td>0.69</td>
<td>0.68</td>
<td>0.67</td>
<td>0.53</td>
<td>0.29</td>
<td>0.38</td>
<td>0.16</td>
<td>0.13</td>
<td>0.64</td>
<td>0.51</td>
<td>1.00</td>
</tr>
</tbody>
</table>

### Table 6. Hypotheses Testing (T-Test)

<table>
<thead>
<tr>
<th>Name</th>
<th>T Test</th>
<th>P Value</th>
<th>Significant At 5% Level</th>
<th>One Tail</th>
<th>Two Tail</th>
<th>Null Hypothesis</th>
<th>Alternative Hypothesis</th>
<th>Null Hypothesis</th>
</tr>
</thead>
<tbody>
<tr>
<td>GBP VS INR</td>
<td>-0.25</td>
<td>-0.25</td>
<td>0.40</td>
<td>0.80</td>
<td>0.05</td>
<td>0.05</td>
<td>Accepted</td>
<td>Rejected</td>
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<tr>
<td>USD VS INR</td>
<td>0.01</td>
<td>0.01</td>
<td>0.50</td>
<td>0.99</td>
<td>0.05</td>
<td>0.05</td>
<td>Accepted</td>
<td>Rejected</td>
</tr>
<tr>
<td>CAD VS INR</td>
<td>-0.44</td>
<td>-0.44</td>
<td>0.33</td>
<td>0.66</td>
<td>0.05</td>
<td>0.05</td>
<td>Accepted</td>
<td>Rejected</td>
</tr>
<tr>
<td>CHF VS INR</td>
<td>0.41</td>
<td>0.41</td>
<td>0.34</td>
<td>0.68</td>
<td>0.05</td>
<td>0.05</td>
<td>Accepted</td>
<td>Rejected</td>
</tr>
<tr>
<td>HKD VS INR</td>
<td>0.09</td>
<td>0.09</td>
<td>0.46</td>
<td>0.93</td>
<td>0.05</td>
<td>0.05</td>
<td>Accepted</td>
<td>Rejected</td>
</tr>
</tbody>
</table>
EUR VS INR  | 0.07  | 0.07  | 0.47  | 0.94  | 0.05 | 0.05 | Accepted | Rejected | Accepted | Rejected
AUD VS INR  | 0.32  | 0.32  | 0.37  | 0.75  | 0.05 | 0.05 | Accepted | Rejected | Accepted | Rejected
SEK VS INR  | -0.47 | -0.47 | 0.32  | 0.64  | 0.05 | 0.05 | Accepted | Rejected | Accepted | Rejected
NZD VS INR  | 1.35  | 1.35  | 0.09  | 0.18  | 0.05 | 0.05 | Accepted | Rejected | Accepted | Rejected
ZAR VS INR  | -1.27 | -1.27 | 0.10  | 0.21  | 0.05 | 0.05 | Accepted | Rejected | Accepted | Rejected
JPY VS INR  | 1.45  | 1.45  | 0.08  | 0.15  | 0.05 | 0.05 | Accepted | Rejected | Accepted | Rejected
MXN VS INR  | -2.14 | -2.14 | 0.02  | 0.04  | 0.05 | 0.05 | Rejected | Accepted | Rejected | Accepted
SDG VS INR  | 0.29  | 0.29  | 0.39  | 0.77  | 0.05 | 0.05 | Accepted | Rejected | Accepted | Rejected

<table>
<thead>
<tr>
<th>Sources</th>
<th>Degree of Freedom DF</th>
<th>Sum of Squares SS</th>
<th>Mean Square MS</th>
<th>F-test P-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Between Groups</td>
<td>12</td>
<td>0.0799</td>
<td>0.0067</td>
<td>0.7-781</td>
</tr>
<tr>
<td>Within Groups</td>
<td>286</td>
<td>2.4469</td>
<td>.0086</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>289</td>
<td>2.5268</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 7. Correlation of Selected Foreign Currencies

**Anova**

Analysis of Variance (ANOVA) is a parametric statistical technique used to compare datasets. This technique was invented by R.A. Fisher and is thus of ten, referred to as Fisher’s ANOVA, as well. It is similar in application to techniques such as t-test and z-test, in that it is used to compare means and the relative variance between them. However, analysis of variance (ANOVA) is best applied where more than 2 populations or samples are meant to be compared.

**One-way analysis**

A one-way ANOVA is used to compare two means from two independent (unrelated) groups using the F-distribution. The null hypothesis for the test is that the two means are equal. Therefore, a significant result means that the two means are unequal.

**Two-way analysis**

A two-way ANOVA test is a statistical test used to determine the effect of two nominal predictor variables on a continuous outcome variable. ANOVA stand for analysis of variance and tests for differences in the effects of independent variables on a dependent variable.

**Interpretation**

From the ANOVA statistics it has been found that the P value of .673 shows that there is no significant difference among the currencies under the study period hence null hypotheses has been accepted.

**Conclusion**

**Findings**

1. Among the samples of currencies under study Swiss France Currency against Indian rupee stand top registering annual returns of 4.3983 percent which is in the range of 4.3983 to 2.0423. Out of 13 currencies under study 11 currencies have positive returns ranging from 4.3983 to 2.0423.
2. Sudan pound has the least risk of 6.1603 followed by Canadian Dollar of 6.3497, Mexican Peso of 7.067, United States Dollar of 7.99, Hong Kong Dollar of 8.167, Australian Dollar 8.19, Euro of 9.2377, Swedish krona of 9.79 respectively. Rest of the currencies under the study are above 10%.
3. The most stable currency during the study period is Sudan Dollar incorporating 1.811. It is followed by Canadian Dollar of 1.89. There are eight currencies below 4 ranging from 2 to 5. Rest of the currencies have negative consistency.
4. Majority of the currencies have not more than Compound Annual Growth Rate of 5%. The two currencies have negative growth rate.
Doller, Hong Kong Dollar v/s Japanese Yen and Sudanese pound, Swedish Krona v/s New Zealand Dollar, Japanese Yen v/s Sudanese Pound, Mexican v/s Sudanese Pound, Swedish Krona v/s Indian Currency have strong positive relations with almost all currencies except with United State Dollar and Hong Kong Dollar having low degree of negative relationship. New Zealand Dollar and South African Dollar, Kong Dollar and United State Dollar, have almost low degree of positive relation with the currencies under study. Euro currency have strong positive relation with the Swedish Krona and Swiss Franc also have Australian Dollar has quite strong positive relation with New Zealand Dollar.

6. It is evident from the statistics that there is no significant difference between one currency to another under study period; hence, null hypothesis has been accepted this has become staying for all the currencies which are under study in each case the null hypothesis has been accepted. Hence there are no significant differences among the currencies with each other under the study period.

7. From the ANOVA statistics it has been found that the P value of .673 shows that there is no significant differences among the currencies under the study period. Hence null hypothesis has been accepted.

Suggestions

Forex is a portmanteau of foreign currency and exchange. Foreign exchange is the process of changing one currency into another currency for a variety of reasons, usually for commerce, trading, or tourism. According to a recent triennial report from the Bank for International Settlements (A global bank for national central banks), the average was more than $5.1 trillion in daily forex trading volume.

Based on the opinion expressed by the respondent enterprises, the following suggestions are of fered to the respondent enterprises.

1. American dollar is the most widely used currency of respondent enterprises for overseas operations. There is a need for reducing the overdependence on USD. This diversification will result in reduction in the currency exposure. Business enterprises can think of using Euro or any other stable currency for their overseas operations. The other option available to exporters is to invoice their overseas business transactions in different currencies rather than only in one currency (for eg. only USD). Thus, they would be able to diversify their currency exposure. Although domestic currency invoicing is impractical in India for obvious reasons, trade and industry bodies need to pressurize the government to facilitate the domestic currency invoicing. Business enterprises can also gradually think of split currency invoicing which may eliminate the currency exposure to some extent.

2. Business enterprises should consider the assessment of currency exposure more seriously. Due consideration should be given to various factors in assessment of currency exposure. Any lapse in this will result in wrong assessment of exposure. Similarly currency exposure assessment should take place on more frequent basis. Daily or at least weekly assessment will help in effective management of currency exposure. Especially when there is volatility in currency market, business enterprises should take up prediction of currency movement which may help them in their decision on currency exposure management. Apart from assessment of exposure and prediction of currency movement, business enterprises should try to estimate the impact of currency movement on their profitability. Such estimates help the business enterprises to decide on using a particularly exposure management tool only if the expected negative impact of such currency fluctuation is more than the cost associated with exposure management tool.

3. Time has come when business enterprises should have full scale risk management team/ departments (At least those business houses who can afford the same). Enterprises need to install and maintain proper risk management systems and departments capable of handling currency exposures.

4. Based on the overall organizational and financial policy, the business enterprises must clearly lay down currency exposure management policy. It should lay down clear guidelines relating to nature of exposure to be managed, type of derivative products to be used, authority of the risk managers in the matter, etc.

5. It is always advisable for the business enterprises to put in place a currency exposure management mechanism after assessing the nature and type of currency risk they are exposed to. While taking decision on managing the currency exposure, due considerations should be given to various internal and external factors. Similarly organizations should have clarity in their currency exposure management objectives. Although it is impractical to manage economic and translation exposure by using derivative instruments, business enterprises should have some internal mechanism to reduce the adverse effect of these exposures.

6. Business enterprises should try to make optimal utilization of internal techniques to manage their currency exposure as they are cost effective and convenient. Techniques like risk sharing agreements, insisting on adjustment clause in the contract, leading and lagging and creating natural hedge are highly effective tools in managing the adverse effects of currency fluctuation. Business enterprises should have the flexibility to go back to their suppliers and
importers and share their concern about currency movement. Companies need to try and negotiate rates depending upon the fluctuations in the billing currency. If company has a long-term partnership with them, this would definitely help them in the times to come while hedging currency risk. Other solutions could be that the business enterprises having revenue in foreign currency should enter into contract with their foreign counterpart and decide the band of fluctuation in the exchange rate that is acceptable to both. If the exchange rate fluctuates adversely beyond the band fixed, the foreign counterpart should compensate the business enterprise. If the exchange rate fluctuates favourable beyond the band fixed, the business enterprise should compensate their foreign counterpart. This would help to maintain the interest of both parties. This method would be able to minimize losses on account of higher volatility in currency movement. Business enterprises should also look at deferring their export receivables to match the movements in the currency. This could mean that booking higher receivables at favourable rupee rates and deferring the same at unfavourable rates.

7. Judicious usage of external exposure management tools such as Options, Swaps and money market hedge not only provides cover against adverse movement of currency but also results in foreign exchange gains. Apart from making use of forward contract, the business enterprises should try to make use of presently available instruments such as Interest Rate Swap, Currency Swap, Coupon Swap, Foreign Currency rupee Option, cross currency options, Interest Rate Cap or Collar (purchases), Forward Rate Agreement (FRA) contract, etc., based upon the nature of their currency exposure. These instruments should be used especially when the currency movement is expected to be more volatile. Recently introduced currency futures can also be used by the enterprises at least to cover the part of their exposure provided, the maturity of their receivables 210 or payables matches the expiry date of futures contract. Apart from using derivative tools, business enterprises should make effective utilization of EFEC / other foreign currency account in mitigating their currency exposure. Sometimes these accounts are interest bearing also.

8. Companies having substantial revenue in foreign currency especially IT companies can have contracts with employees, to accommodate foreign currency movements, either up or down, in their salary. The other option is to offer employees a certain percentage of their salary in foreign currency. This could mean entering into contract with employees, which allows pass through of gains and losses on account of foreign currency movements. 9. Business enterprises should take regular suggestions from bankers before taking any decision on currency exposure management. Instead of depending upon only one banker for all foreign exchange related transactions, it is advisable to maintain business relation with more than one banker. As happened in the past, business enterprises should not blindly purchase the exotic derivatives sold by some of the private banks. Before buying any derivative products, if of fered by a banker which they do not understand, it is advisable to consult the RBI for expert advice.

Suggestions of offered to Central government/ RBI. Based on the opinion expressed by the respondent enterprises relating to regulatory and supportive measures and based on the analysis of some secondary sources of information, the following suggestions are offered to the Central government/ RBI.

1. RBI/ commerce and industry ministry with the assistance of trade and industry bodies should conduct awareness programmes to enterprises, especially small and medium, about the currency exposure management. 211 Similarly, they should provide information on currency movement forecasting, helping in selecting a proper hedging tool, etc. RBI should instruct the commercial banks to make currency exposure management mandatory, at least those financed by such banks.

2. A single regulator should regulate all derivative products of offered to business enterprises while managing their currency exposure. Presently, the authority of two regulators, viz., RBI and SEBI overlaps in certain areas - for example, although all OTC derivatives are regulated by RBI, currency futures are regulated by SEBI. This gives rise to a regulatory overlap leading to conflicts since RBI permits derivatives only for the purpose of hedging a risk but not for speculative purposes. But currency futures give scope for speculation. Regulation of all the aspects of currency exposure management by one dedicated regulator addresses these issues.

3. There is a need for separate currency exchange in India which caters to the needs of business enterprises by offering derivative products for hedging purpose only. Presently, Currency futures and Options are traded in equity and commodity exchanges. Setting up of a dedicated currency exchange just catering to hedgers will make the job easier for all stakeholders.

4. Generally PSU banks suggest only forward contracts to its clients, especially to Small and medium enterprises. They do not encourage other derivative instruments as private banks do. RBI should instruct the PSU banks to popularise other derivative products as well. Some of the private sector banks in the recent past sold exotic derivatives to some of its clients without

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5. It is felt that RBI has not been intervening in the market optimally. This is because the RBI does not reveal (like most central banks which are notorious for being cryptic) the goal it seeks to achieve by intervening in the market. Nobody knows at what level the RBI wants the home currency to be against a popular hard currency like the USD. Does the RBI consider only export competitiveness or does it consider only inflation or does it consider both in various proportions? None knows the answer. RBI should actively intervene in the foreign exchange market keeping in mind the interest of both exporters and importers.

6. RBI in consultation with trade and industry bodies should create a fund to help the member business enterprises to overcome the problem of adverse currency movements. Contribution to the said fund may be from the exchange gains of the member enterprises and part from government.

7. In the past when Indian rupee appreciated especially against USD, government has announced various Tax and Non tax Sops (relief package) to the exporters such as Continuation of tax concession to STPI and EOU, extension of DEPB scheme, (increase in rates), concessional pre-shipment and post shipment credit for small and medium exporters, refund of service tax, payment of interest on balance in EEFC account, etc. Considering the amount of loss the exporters have incurred due to rupee appreciation, it was felt that the relief package was no way sufficient. Instead of announcing tax sops as a kneejerk reaction when a problem arises, it is better to put in place a suitable mechanism which is automatically triggered once such problems arise and provides relief to exporters/ importers, as the case may be.

8. Experts feel full convertibility of rupee would facilitate further growth and higher investments. Capital account convertibility is considered to be one of the major features of a developed economy. It helps attract foreign 213 investment. It of ers foreign investors a lot of comfort as they can reconvert local currency into foreign currency anytime they want to and take their money away. At the same time, capital account convertibility makes it easier for domestic companies to tap foreign markets. At the moment, India has current account convertibility. This means one can import and export goods or receive or make payments for services rendered. However, investments and borrowings are restricted. Given the changes that have taken place over the last two decades in India, there is merit in moving towards fuller capital account convertibility within a transparent framework. Government should take necessary steps to gradually move towards full convertibility of the Indian rupee. But while moving towards full convertibility government should adopt a cautious approach, taking into consideration all aspects and the risks involved in opening up the economy by allowing convertibility of the currency. Full convertibility will help the business enterprises in more efficient management of their currency exposure.

9. Presently only transaction exposure can be managed by using derivative products. Some of the companies in the recent past have requested the RBI to allow them to hedge their economic exposure in overseas exchanges. This facility should be allowed by the RBI.

10. The banks should devise hedging products that will enable small businesses to protect themselves from currency exposure as they may not have access to competitive and efficient forex services and moreover as they cannot park their fund in EEFC account.

Conclusion

All of these factors determine the foreign exchange rate fluctuations. If you send or receive money frequently, being up-to-date on these factors will help you better evaluate the optimal time for international money transfer. To avoid any potential falls in currency exchange rates, opt for a locked-in exchange rate service, which will guarantee that your currency is exchanged at the same rate despite any factors that influence an unfavourable fluctuation.

For more information on transferring money abroad, learn about some important tips for sending money overseas and you.

The Foreign exchange market is the biggest financial Market in the world. Bigger than the New York Stock Exchange and Future Markets combined. And with reduced “buy-in” limits now, even small-time players can join the Forex trading marketplace. That doesn’t mean everyone should join, however. Buying an auto-trading program sold to you with the promise of making you millions probably won’t. In fact, it may cost you everything you own. The only way to win in Forex trading is the good, Old fashioned way-hard work and also understanding of the market.

One as to be clued into global developments, trends in world trade as well as economies indicators of different countries. These include GDP growth, fiscal and monetary policies, inflows and outflows of the currency, local stock market performance and interest rates.

As discussed in introductory part of the thesis, under Indian context, originally, currency exposure was not a problem at all because parity value of Indian rupee was
determined by Government of India. It remained fixed for very long period of time. Even when parity value underwent fluctuation, there used to be a continuous depreciation of Indian rupee against major currencies of the world, especially USD. In early nineties, India resorted to Market determined Exchange rate system. Even after this, there was a continuous depreciation in the parity value of Indian rupee. Since 2003 there started a trend of appreciation of Indian rupee against major currencies, especially USD. Exchange rate of Indian rupee against major currencies, especially USD underwent a drastic appreciation in the year 2007 and the trend was reversed in 2008 when there was a drastic depreciation. In this volatility of exchange rate, Indian Business enterprises which are into overseas operations face significant currency exposure. The present empirical study is undertaken with an objective of understanding and evaluating the management of currency exposure as practiced by Indian enterprises of different categories engaged in multinational business. Based on the study of ninety enterprises it can be concluded that the currency exposure faced by respondent enterprises is on higher side. In spite of high degree of exposure, the Indian business enterprises have not taken the problem of currency exposure with the seriousness which it deserves. This is evident as they give little importance to various factors that need to be considered in assessment of currency exposure; they are asymmetrical in reckoning their foreign exchange risk position, they overlook the computation of impact of currency fluctuation on profitability, forecasting of currency movement for assessment and management of currency exposure is ignored, exposure management policy is inexistnet and practice of maintaining a separate department/ team for accurate assessment and management of currency exposure is rare among respondents. Although substantial majority of respondents manage their currency exposure, they do not take it up with the 215 seriousness which it deserves. This is evident as they are incon siderate about various internal and external factors while taking exposure management decision; they lay greater emphasis on tackling transaction exposure than operating and translation exposure, there is a deficiency in using internal and external technique of managing currency exposure and they manage a small proportion of their exposure. In India, the economic liberalization in the early nineties provided the foundation for the introduction of foreign exchange derivatives. With the current account convertibility being introduced in 1993, the environment became even more favourable for the introduction of derivative products. Based on the recommendations of the Rangarajan Committee on Balance of Payments, Indian business enterprises were given access to various currency derivative instruments such as foreign exchange forward contracts, foreign currency-rupee swap instruments and currency options both cross currency as well as foreign currency-rupee, etc. Apart from above said OTC instruments, exchange traded Currency futures were also introduced in 2008. Apart from the above discussed derivative instruments, government has permitted the use of EEFC account (Exchange Earners’ Foreign Currency account) which seeks to help business enterprises to manage their currency exposure indirectly by maintaining a balance in this account in terms of foreign currency without converting it into domestic reporting currency. Moreover sometimes interest also accumulates on the balance outstanding in the said accounts in terms of foreign currency. In spite of existence of problem of currency exposure and avenues available to manage the currency exposure, it is not taken up with the seriousness which it deserves. In the present study, although respondents opine that regulations are not stringent in India, as far as currency exposure management is concerned they feel that they are dissatisfied with the support of the government/ RBI in tackling the problem of currency exposure. They expect RBI/ government to take proactive steps in the areas like, permitting domestic currency invoicing, 216 providing new and innovative exposure management device, ensuring cheaper exposure management and restoration of Sec 80 HHC and other tax benefits and most importantly providing timely export sops. Based on the findings of the study, some of the suggestions were of fered to the respondent enterprises. Most of suggestions are related to reducing the over dependence on one currency, taking the problem of currency exposure more seriously and managing it more efficiently. Similarly, some suggestions were of fered to RBI/ Government which was related to creating the awareness about the problem, introducing newer and innovative exposure management devices and providing helping hand to business enterprises whenever they are in problem. The techniques available to manage currency exposure provide immediate and short run shield. In the long run, currency exposure can create more grave problems to Indian business enterprises which can only be tackled by resorting to innovation, efficiency and cost reduction.

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