Trading Strategies:

**Case 1:** View INR will depreciate against USD. Caused by India’s sharply rising import bill and poor FI inflows.

**Trade:**
- USD/INR 31 Jul 08 contract: 43.2000
- Current spot rate (9 July 08): 42.0000
- **Buy 1 Jul contract**
  - Note: Buy if the unhedged INR position is considered too high.
- **Sell 1 Aug contract**
  - Risk: Bracket on buy side to be decided.

**Economic return**
- Profit: INR 200 (44.0000 - 43.2000)

**Case 2:** Expecting a renminbi for USD 1000 on 29 August 08. Want to lock in the FX rate today.

**Trade:**
- USD/INR 29 Aug 08 contract: 44.2500
- Current spot rate (9 July 08): 42.0000
- **Sell 1 Aug contract**
  - Note: Sell if the unhedged INR position is considered too high.
- **Buy 1 Aug contract**
  - Risk: Bracket on sell side to be decided.

**Economic return**
- Profit: INR 200 (45.2500 - 44.2500)

**Case 3:** Investment offshore for USD 1000 on 31 Jul 08. Also want to keep FX exposure hedged for a month after that.

**Trade:**
- USD/INR 31 Jul 08 contract: 42.5000
- USD/INR 29 Aug 08 contract: 44.2500
- Current spot rate (9 July 08): 42.0000
- **Buy 1 Jul contract**
  - Risk: Bracket on sell side to be decided.
- **Sell 1 Aug contract**
  - Risk: Bracket on buy side to be decided.

**Economic return**
- Profit: INR 200 (45.2500 - 44.2500)

Note: Return on offshore investment can be hedged in addition to total investment amount.

**Case 4:** You are holding a long stock. You think it is a good long-term buy in current market conditions. But you want to hedge the impact of INR appreciation on the stock price in the medium to long term.

**Trade:**
- USD/INR 31 Dec 08 contract: 45.0000
- Current spot rate (9 July 08): 42.0000
- **Sell Dec contract**
  - Risk: Bracket on buy side to be decided.
- **Buy Dec contract**
  - Risk: Bracket on sell side to be decided.

**Economic return**
- Profit: INR 200 (45.0000 - 44.5000)

Note: Hedge rate will be determined by running simulations to impact of currency appreciation.

The National Stock Exchange of India (NSE) is one of the largest and most advanced stock exchanges in the world. NSE has set up its trading system as a nation-wide, fully automated screen-based trading system. It has written for itself the mandate to create new benchmarks in world class infrastructure, technology, risk management, clearing and settlement, investor services and best market practices. NSE trading facility can be accessed through a wide network of trading terminals across the country. The central order book with a tight bid-ask spread provides a highly liquid market for the investors.

NSE has always taken initiatives to facilitate both investor and market participants to availing opportunities. It has been the force in offering newer products in equities and derivatives segment and also new asset class for the investors to choose from.

Some milestones:

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apr-93</td>
<td>Recognition as a stock exchange</td>
</tr>
<tr>
<td>Nov-94</td>
<td>Capital Market (Equities) segment goes live</td>
</tr>
<tr>
<td>Oct-95</td>
<td>Becomes largest stock exchange in the country</td>
</tr>
<tr>
<td>Apr-96</td>
<td>Launch of NSE 50 Index</td>
</tr>
<tr>
<td>Jun-96</td>
<td>Establishment of Settlement Guarantee Fund</td>
</tr>
<tr>
<td>Feb-00</td>
<td>Commencement of Interest Rate Trading</td>
</tr>
<tr>
<td>Jun-00</td>
<td>Commencement of Derivatives Trading (under futures)</td>
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<tr>
<td>Jun-01</td>
<td>Commencement of trading in index options</td>
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<tr>
<td>Jul-07</td>
<td>NDTV launches new index derivatives</td>
</tr>
<tr>
<td>Jan-08</td>
<td>Introduction of Mini Nifty derivative</td>
</tr>
<tr>
<td>Mar-08</td>
<td>Introduction of long term option contracts</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Launch of Securities lending &amp; Borrowing Scheme</td>
</tr>
<tr>
<td>Apr-08</td>
<td>Launch of India VIX</td>
</tr>
</tbody>
</table>

Disclaimer

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Currency Futures Trading will be of interest to those who wish to:

- **Invest**: Take a view on USD-INR appreciating or depreciating over a specified time frame. E.g., if you expect oil prices to rise and impact India’s import bill, you would buy USD-INR with a view to INR depreciating. Alternatively, if you believed that strong exports from the IT sector, combined with strong FII flows, will translate into INR appreciation, you would sell USD-INR.

- **Hedge**: If you are an importer and have USD payments to make in the future, you can hedge or crystallize your foreign exchange exposure by selling USD-INR and fixing your pay-out rate today. You would hedge if you were of the view that USD-INR was going to depreciate.

- **Arbitrage**: Trading in futures allows you to trade in interest rates implied by the foreign exchange market.

Foreign Exchange which to date has been an asset class only banks and corporates with currency exposure were allowed to trade has finally been made available and easily accessible to all Resident Indians. In the context of growing integration of the Indian economy with the rest of the world and a continuous move towards capital account liberalization, Securities Exchange Board of India and Reserve Bank of India have permitted trading in Currency Futures based on the USD-INR exchange rate.

The National Stock Exchange (NSE) group which has brought you trading in equities, interest rates and commodities brings you trading in Currency Futures. The screen-based trading system with more than 3,000 32,000 trading terminals across the country shall now provide you a new segment on Currency Derivatives.

**Product Specifications:**

<table>
<thead>
<tr>
<th>Underlying</th>
<th>USD-INR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading Hours</td>
<td>0900 GMT to 1500 GMT</td>
</tr>
<tr>
<td>Contract Size</td>
<td>USD 1000</td>
</tr>
<tr>
<td>Tick Size</td>
<td>0.05 paise or INR 0.0025</td>
</tr>
<tr>
<td>Trading Period</td>
<td>Maximum 3 months or 12 months</td>
</tr>
<tr>
<td>Contract Months</td>
<td>24 near calendar months</td>
</tr>
<tr>
<td>Contract Expiry Date</td>
<td>Last working day of the month (subject to holiday calendars)</td>
</tr>
<tr>
<td>Last Trading Day</td>
<td>Two trading days prior to Contract Expiry Date</td>
</tr>
</tbody>
</table>

FAQ:

**What is a currency futures contract?**

A futures contract is a standardized exchange traded contract to buy or sell a certain underlying instrument at a particular price in the future, at a specified time. In the case of a currency futures contract, the underlying instrument is a foreign exchange rate.

**What are Spot and Forward FX rates?**

The spot exchange rate refers to the current exchange rate. The forward exchange rate refers to an exchange rate that is quoted and traded today but for delivery and payment on a specific future date. The main difference between FX spot and forwards price is that a forward price reflects the interest rate differential of the respective currencies for the specified future date.

**Forward Price = Spot Price x (1 + Forward Points)**

Forward points combine the benefit or disadvantage of holding the specific currency for a specified time.

**Forwards vs Futures?**

Futures are standardized forward contracts traded on an exchange. Forwards trade in the OTC market and are customized. Further, forwards are bilateral agreements between two counterparties whereas futures settlements are guaranteed by the exchange clearing house. In addition, futures provide transparency in pricing, liquidity and anonymity while trading.

**How do I start trading Currency Futures?**

Currency Futures can be bought and sold through the trading member of National Stock Exchange. To open an account with a NSE trading member, you will be required to provide information which includes signing of member constitute agreement, constituent registration form and a risk disclosure document. The trading member will assign you a unique client identification number.

To begin trading, you will be required to deposit cash or collateral with your trading member as may be stipulated by them.

**How will a Currency Futures contract finally settle?**

Contract Expiry Date for each contract shall be the last working day of the month (excluding Saturdays). The Last Trading Day for each contract shall be two working days prior to the Contract Expiry Date. The settlement will be fixed based on the Reserve Bank of India Reference Rate at 1200 noon on the Last Trading Day. All contracts will net settle in INR.