Analysis and Comparison Of Money Market Instruments

Submitted to - Prof. Nimmy Rose Jacob
Submitted by - Sangam Mahajan
(18BCE7005)
Slot - H1+TH1

Money Market :

The money market is the arena in which financial institutions make available to a broad range of borrowers and investors the opportunity to buy and sell various forms of short-term securities. There is no physical "money market." Instead it is an informal network of banks and traders linked by telephones, fax machines, and computers.

The money market is important for businesses because it allows companies with a temporary cash surplus to invest in short-term securities; conversely, companies with a temporary cash shortfall can sell securities or borrow funds on a short-term basis. In essence the market acts as a repository for short-term funds. Large corporations generally handle their own short-term financial transactions; they participate in the market through dealers. Small businesses, on the other hand, often choose to invest in money-market funds, which are professionally managed mutual funds consisting only of short-term securities.

Money Marketing Instruments :

Money Market Instruments provide the tools by which one can operate in the money market. Money market instrument meets the short-term requirements of the borrowers and provides liquidity to the lenders. The most common money market instruments are Treasury Bills, Certificates of Deposits, Commercial Papers, Repurchase Agreements, and Banker's Acceptance.

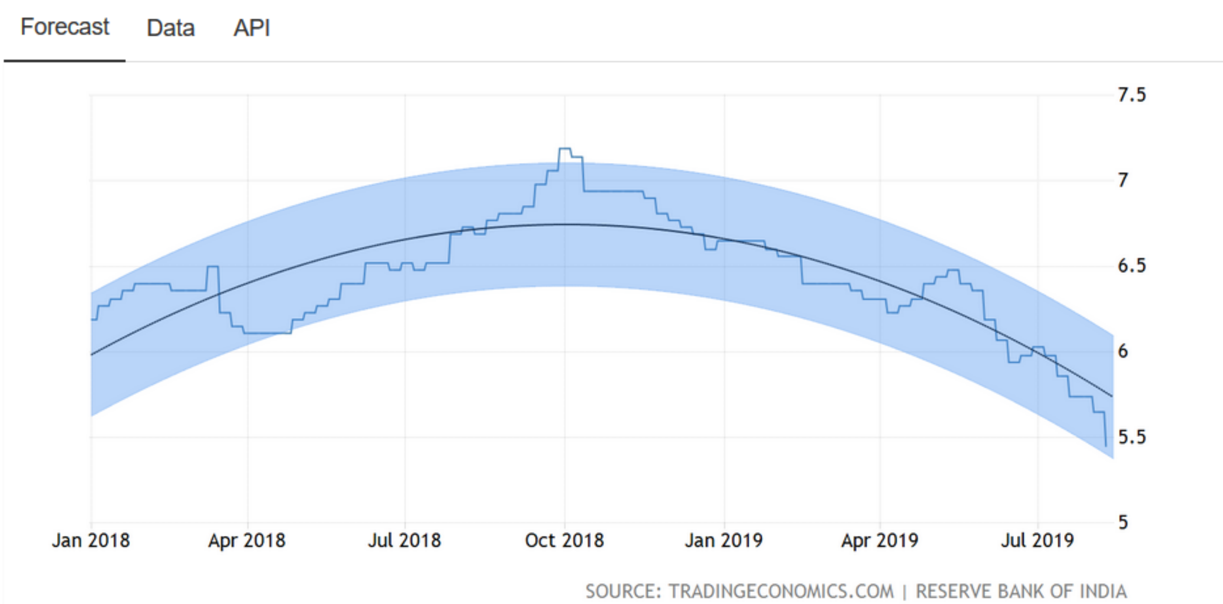
❖ Treasury Bills :

Treasury bills (T-bills) are short-term notes issued by the U.S. government. They come in three different lengths to maturity: 90, 180, and 360 days. The two shorter types are auctioned on a weekly basis, while the annual types are auctioned monthly. T-bills can be purchased directly through the auctions or indirectly through the secondary market. Purchasers of T-bills at auction can enter a competitive bid (although this method entails a risk that the bills may not be made available at the bid price) or a non-competitive bid. T-bills for noncompetitive bids are supplied at the average price of all successful competitive bids.

- ## 91 Day Yield

India Treasury Bill 91 Day Yield decreased to 5.45 percent on Friday August 9 from 5.65 percent in the previous trading day. Interbank Rate in India averaged 7.42 percent from 1993 until 2019, reaching an all time high of 12.97 percent in July of 1995 and a record low of 3.10 percent in July of 2009.

According to Trading Economics' global macro models and analysts' expectations, the interbank Rate in India is expected to be 5.65 percent by the end of this quarter. Looking forward, estimate the Interbank Rate in India to stand at 5.45 in 12 months' time. In the long-term, the India Treasury Bill 91 Day Yield is projected to trend around 5.45 percent in 2020, according to our econometric models.



❖ Certificates of deposit (CDs) :

These are certificates issued by a federally chartered bank against deposited funds that earn a specified return for a definite period of time. They are one of several types of interest-bearing "time deposits" offered by banks. An individual or company lends the bank a certain amount of money for a fixed period of time, and in exchange, the bank agrees to repay the cash with specified interest at the end of the time period. The certificate constitutes the bank's agreement to repay the loan. The maturity rates on CDs range from 30 days to six months or longer, and the amount of the face value can vary greatly as well. There is usually a penalty for early withdrawal of funds, but some types of CDs can be sold to another investor if the original purchaser needs access to the money before the maturity date.

There was a total of 37 issuers of the certificate of deposit in India. Both national and international commercial banks and some financial institutions offer certificates of deposit on a regular basis. The average yield from such CDs is around 7%. While selecting one for your portfolio you must consider who the issuer is. If you want to keep your risk at a minimal then go for CDs from a nationalized bank. Further, keep in mind that liquidity is of prime importance if you want to trade before the redemption date in a secondary market. So higher the units settled, the better the liquidity in the secondary market.

Lists of Indian certificate of deposit issuers :

S.No	Banks/FI	Total Units Settled (till Nov 18)	Average Yields
1	AXIS BANK LIMITED	14618020	7.00
2	IDFC BANK LIMITED	13312435	6.84
3	INDUSIND BANK LIMITED	10293482	7.17
4	HDFC BANK LIMITED	7519565	7.07
5	ICICI BANK LIMITED	6332790	6.93
6	VIJAYA BANK	4543150	6.76
7	YES BANK LIMITED	4458610	7.19
8	RBL BANK LIMITED	2542050	7.03
9	KOTAK MAHINDRA BANK LIMITED	2317400	6.89
10	THE SOUTH INDIAN BANK LTD.	2162955	6.84
11	SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA	2106180	7.55
12	INDIAN BANK	1846250	6.72
13	UNION BANK OF INDIA	1420950	6.76
14	PUNJAB AND SIND BANK	1231000	6.56
15	NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT	1122990	7.37
16	THE JAMMU AND KASHMIR BANK LIMITED	1023240	7.05
17	ANDHRA BANK	971500	6.68
18	ORIENTAL BANK OF COMMERCE	971000	6.89
19	THE FEDERAL BANK LIMITED	897400	6.71
20	EXPORT-IMPORT BANK OF INDIA	842300	7.41

21	PUNJAB NATIONAL BANK	735500	6.30
22	DENA BANK	633000	6.64
23	BANK OF BARODA	583000	6.70
24	THE KARNATAKA BANK LIMITED	563425	6.76
25	CANARA BANK	432500	7.09
26	DCB BANK LIMITED	324650	7.21
27	THE KARUR VYSYA BANK LIMITED	217500	6.70
28	AU SMALL FINANCE BANK LIMITED	109570	7.26
29	UJJIVAN SMALL FINANCE BANK LIMITED	80350	7.20
30	BANDHAN BANK LIMITED	78600	6.72
31	CREDIT SUISSE AG	70000	7.06
32	COOPERATIEVE RABOBANK U.A	37650	7.16
33	EQUITAS SMALL FINANCE BANK LIMITED	36743	7.34
34	ABU DHABI COMMERCIAL BANK PJSC	12000	6.84
35	UTKARSH SMALL FINANCE BANK LIMITED	5000	8.46
36	INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED	2500	6.25
37	SURYODAY SMALL FINANCE BANK LIMITED	500	7.89

Comparison :

S.No.	Parameters	T - Bills	CDs
1	Return	Low returns	High returns
2	Risk	Low level of risk	High level of risk
3	Tax Benefits	No tax deduction	Non Taxable
4	Risk Return Benifits	Risk free return	Risky return
5	Liquidity	High liquidity	Lower liqudity

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