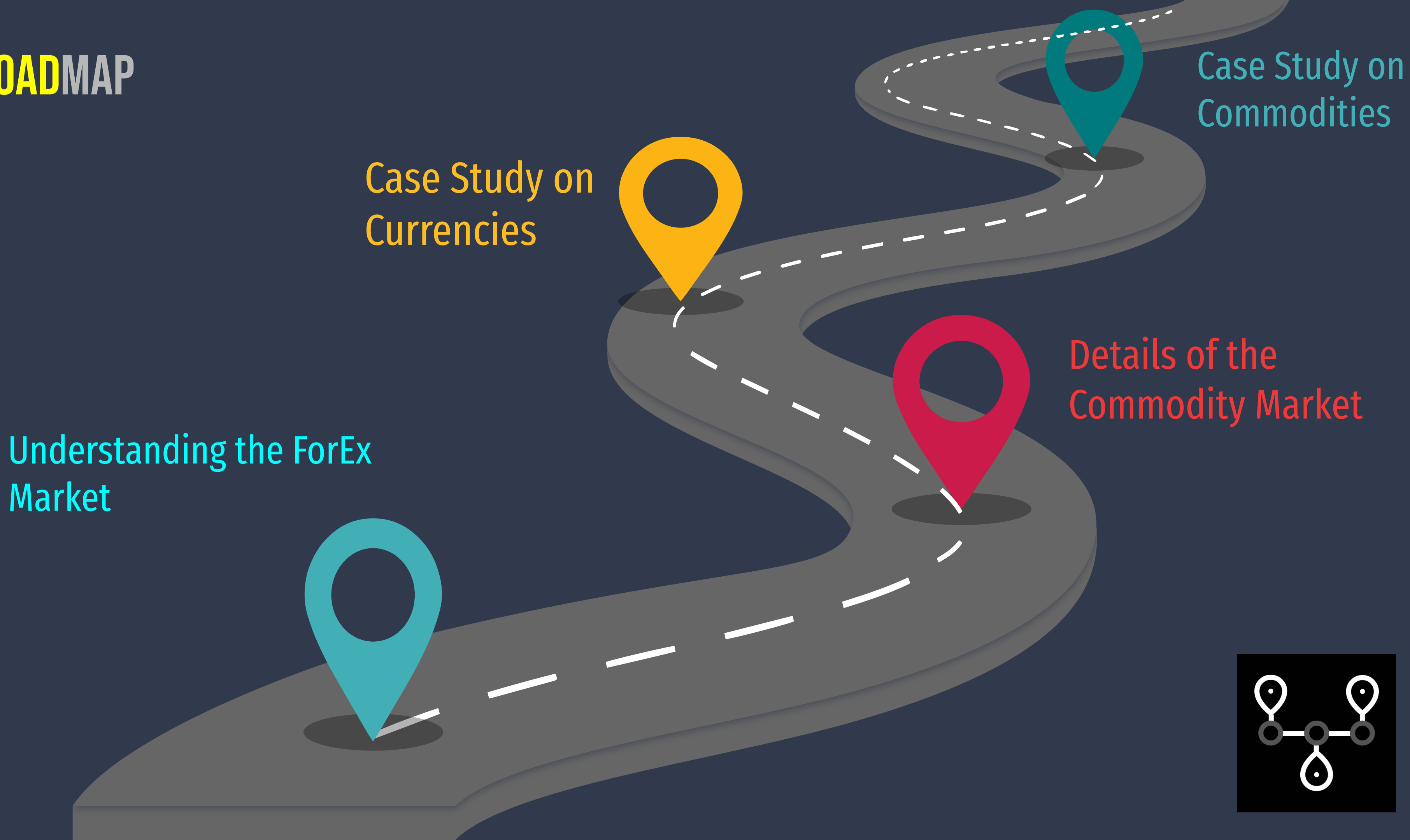
ForEx and Commodity Markets

ROADMAP


Understanding the ForEx Market
Case Study on Currencies
Details of the Commodity Market
Case Study on Commodities

FOREX MARKET

- Forex represents a market where currencies are bought and sold.

- A currency pair is a pairing of currencies where the value of one is relative to the other. The first listed currency of a currency pair is called the base currency, and the second currency is called the quote currency.

- The EUR/USD currency pair is considered the most liquid currency pair in the world

For example, if let’s say 1 EUR = ₹120 and 1 USD = ₹100, then EUR/USD = 1.2 and this currency pair can be bought at this price per unit.

COMMODITY MARKET

- A commodity is a basic physical asset, often used as a raw material in the production of goods or services.
  Examples of commodities are Crude oil, Gold, Silver, corn, Natural Gas, Cotton, Wheat, Coffee, etc.

- A commodity market is a marketplace for buying, selling, and trading raw materials or primary products.

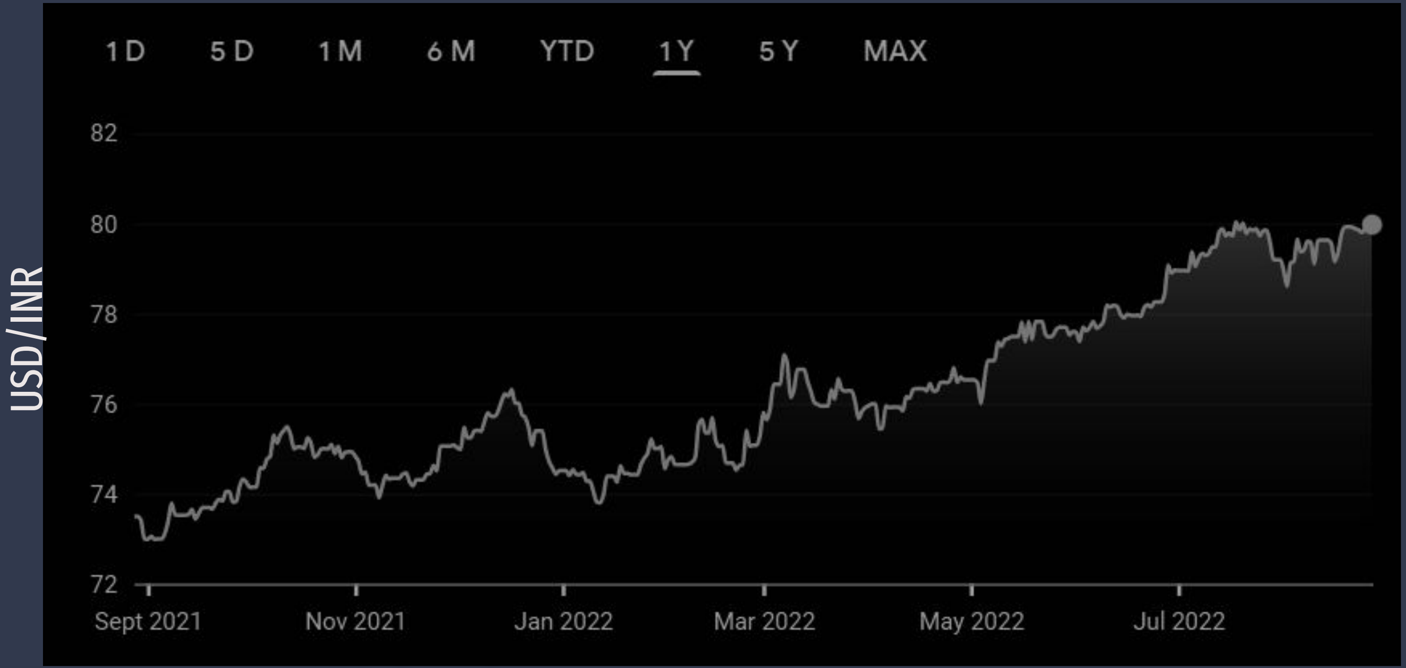
- It is divided into Agricultural Commodities (traded at NCDEX) and Non Agricultural Commodities (traded at MCX).

- Investors can consider investing directly in the physical commodity. Or indirectly by purchasing shares in commodity companies, mutual funds, or exchange trade funds(ETFs).

CASE STUDY 1

Aim : To understand the dynamics of US Dollar fluctuations against Indian Rupee by using observations over the timeline considering *Russia-Ukraine Invasion* and *Covid-19 Pandemic.*

USD/INR CURRENCY PRICE



USD: Base Currency

INR: Quote Currency

Russian Invasion of Ukraine *hiked* the value by 5.92% in 5 months.

During Covid, when US was in a terrible condition due to mass spread, value of USD/INR *decreased* by 5.42% in just one month.

ABANDONING THE SWIFT NETWORK AND SETTLING FOREIGN TRADE IN INR

SWIFT is the world's leading provider of secure financial messaging services.

It facilitates trillions of dollars of cross-border payments between 11,000 financial institutions in more than 200 countries.

The US Government banned Russia from trading internationally in USD. RBI used this opportunity and permitted settlement of foreign trade in INR.

This move is expected to save India precious foreign exchange, aim to break the dollar monopoly and arrest the plunging domestic currency.

Our Analysis on this is it will greatly impact the Indian Rupee’s value positively in long term. Neighbours and Russia can help convert 16.38% of India's trade into rupees.

WHO DECIDES THE VALUE OF DOLLAR IN RUPEES

Foreign currency exchange rates are floating and depend on daily market factors like demand and supply, with zero or little intervention from the countries involved. The more the demand, the greater the value. For example, heavy imports, which mean more dollars purchased, decrease the value of our currency.

If the demand for US dollars increases in the forex market, the value of the dollar will appreciate.

There are more factors affecting the values, which we shall look at in the next slide.

FACTORS AFFECTING USD AND INR PRICES

- Inflation Rate : A high inflation rate hurts a currency's value and exchange rate. When a currency loses value, it becomes more expensive to import things.

- Currency Reserve Status : Dollar is the World Reserve Currency. The currency pair prices depend on how much reserves of USD India has. The amount of reserves of USD India has, determines the rate at which USD trades against INR.

- Exports to Imports: The ratio of the index of a country’s export prices to the index of its import prices determines prices. Say, India’s exports are higher than its imports.Then, India’s Terms of Trade will improve. So, basically, it will strengthen the Indian rupee.

- Political Stability: This is a subjective factor as there are no means of measuring political stability in countries but still it can be easy to compare. The government in India has a second term with complete majority and this is appealing for foreign investors to invest in India, thereby strengthening our economy.

CONCLUSION AND ANALYSIS

USD is almost steadily increasing in value compared to INR. If we go by the history, as in markets, history tends to repeat, it would be wise to go long on the USD/INR currency pair.

This currency pair is quite responsive to the recent events in the world.

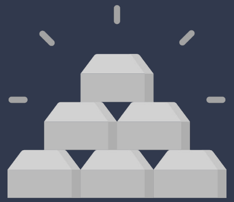
However, we see certain factors coming up like trading with Russia and other countries in INR, a stable government and strengthening export industry that might suggest otherwise.

These changes might affect in the long term, but in the short term, USD/INR prices are likely to rise.

CASE STUDY 2

AIM: To study the trends in gold prices in the commodity market by doing case study and understanding what factors the price depends on. Also understand why the prices of gold are different in different countries.

WHY ARE THE PRICES OF GOLD SO DIFFERENT IN DIFFERENT COUNTRIES?



Price of 10g Gold in Dubai : Rs.45,877
Price of 10g Gold in India : Rs.53,145

Demand & Supply: Like any other commodity or item, the price of gold depends on its demand and supply. In certain countries like India, where gold has ceremonial importance and viewed as safe investment, the demand of gold is high and supply is limiting. Hence the price can be higher here.

Taxes and Import Duties: Gold as a premium commodity brings more revenue to tax officials and economic stability. Hence, gold rates are subject to increment along with import tax and duties. Dubai has no income tax and very minimal other duties on it. That is a reason for the 18% difference in prices in these countries.

WHAT FACTORS AFFECT THE PRICE OF GOLD?

- Inflation: When inflation rises people tend to invest more in gold compared to equity. As a result, when the inflation is high, the demand for gold increases and vice versa.

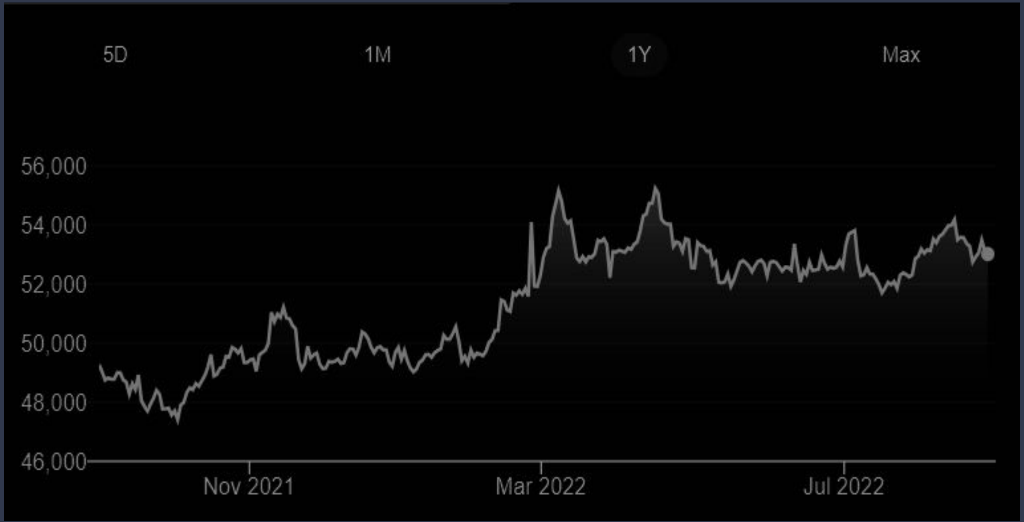
- USD/INR Rates: Gold is bought and sold in the international market at homogeneous rate, in dollars. Henceforth, the value of the Indian rupee influences the price of gold. When the value of the rupee falls, the exchange rate is higher. A higher exchange rate leads to a higher price of gold.

WHAT IS DIGITAL GOLD AND HOW IS IT DIFFERENT FROM PHYSICAL GOLD?

Digital gold is a virtual method of buying and investing in the GOLD without having to physically hold the gold.

- Investment Cost: There are no making fees on digital gold. Physical gold always comes with making, transporting and security costs.
- Liquidity: digital gold has excellent liquidity, it can be bought and sold on a click. Whereas physical gold is a physical entity, disposing of it off usually takes some time.
- Quantity: Digital gold can be bought for as less as Rs.1, whereas we need significant amount to buy physical gold from stores.

HOW CAN GOLD BE TRADED?



- Investing in digital gold can be done via Mutual Funds or Gold Exchange Traded Fund (ETFs).
- Digital Gold can be held for upto 5 years only. After that, one can sell or redeem it as other currency.
- The price for gold, as we see in the graph, has not risen swiftly, but not fallen steeply too. Gold provides security at the cost of high gains.

CONCLUSION AND ANALYSIS

- Gold can be viewed as a smart investment when the inflation is high, there is international tension, or when the stock markets are unstable.
- It may have a lower return rate but that accounts for the safety of investment made.
- In today’s scenario when the stock market is blooming, it would be decent to have a larger portion of your investment portfolio into equity and only some of it into commodities like gold.

THANK YOU