AN EMPIRICAL STUDY OF CURRENCY FUTURES TRADING ACTIVITY AND EXCHANGE RATE VOLATILITY IN INDIAN CURRENCY DERIVATIVES MARKET WITH SPECIAL REFERENCE TO USD/INR TRADED ON NSE

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ABSTRACT
The trading in future derivatives is always being considered as an instrument of safe investment comparative to the other investments in view of hedging risk. Besides the well-established fact towards the requirement of market based instrument, there is always been an uncertainty, as expressed by various financial bodies, on the usefulness and suitability of currency futures contract in hedging the risk of importers and importers against exchange rate volatility. The past studies remarked that the volatility in the exchange rate (USD/INR) is increasing significantly after the introduction of currency futures derivatives but these derivatives are not in any way responsible for the volatility in the exchange rate. This means that there are some more factors other than the currency future derivatives. Hence an attempt has been made to re-validate the impact of currency futures trading on Exchange rate (USD/INR) volatility in India. For re-validation of these factors in this research, the data collected with respect to traded volume, traded value, open interest and trade price are analyzed with the help of GARCH (1, 1) model, Granger Causality Test and Augmented Dicky Fuller Test.

KEYWORDS: Currency Futures Derivatives, Exchange rate, NSE, Volatility, GARCH Model