

The Big Markets

How do they Work??

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Outline

- Introduction
- The Big Markets
 - => Equity Market
 - => Debt Market
 - => Currency Market
 - => Commodity futures
- Acknowledgement



"I'm pretty sure this means the price has finally hit bottom."

Introduction

- Richard Cantillon
- Frank Knight
- One feeding the other
- Continuous symbiotic loop
- Interdependence between economic actors
- Flow of money/value in an economy is continuous in nature



Characteristics



EQUITY/STOCK MARKET



WHAT IS STOCK MARKET?



- A stock market or equity market is a market for the trading of company stock (shares) or derivatives at an agreed price.
- These are securities listed on a stock exchange as well as those only traded privately.

INSTRUMENTS

- Shares/Stock

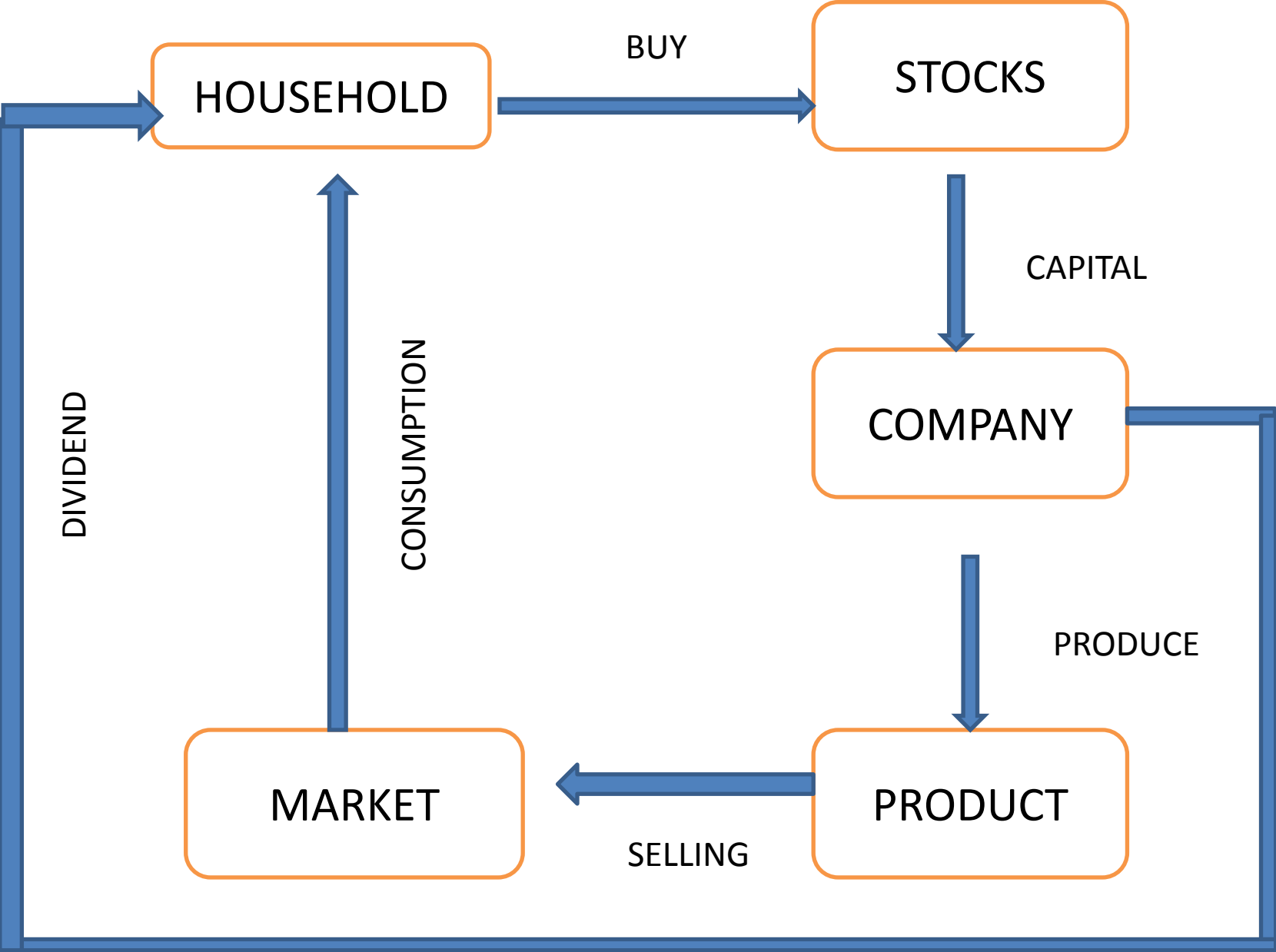
PLAYERS

- Companies
- investors

INSTITUTIONS

- National stock exchange
- BSE, etc

CIRCULAR FLOW



Debt Market

- Debt/Bond market is an environment in which the issuance and trading of debt securities occurs.
- Includes:
 - i) Government-issued securities
 - ii) Corporate debt securities
- It facilitates the transfer of capital from savers to the issuers or organizations requiring capital for government projects, business expansions and ongoing operations

Mostly trading occurs over-the-counter, through organized electronic trading networks, and is composed of:

- ✓ Primary market (through which debt securities are issued and sold by borrowers to lenders)
- ✓ Secondary market (through which investors buy and sell previously issued debt securities amongst themselves)



"Relax. I've come for your high yield 30 year Treasury bonds. They're about to expire."

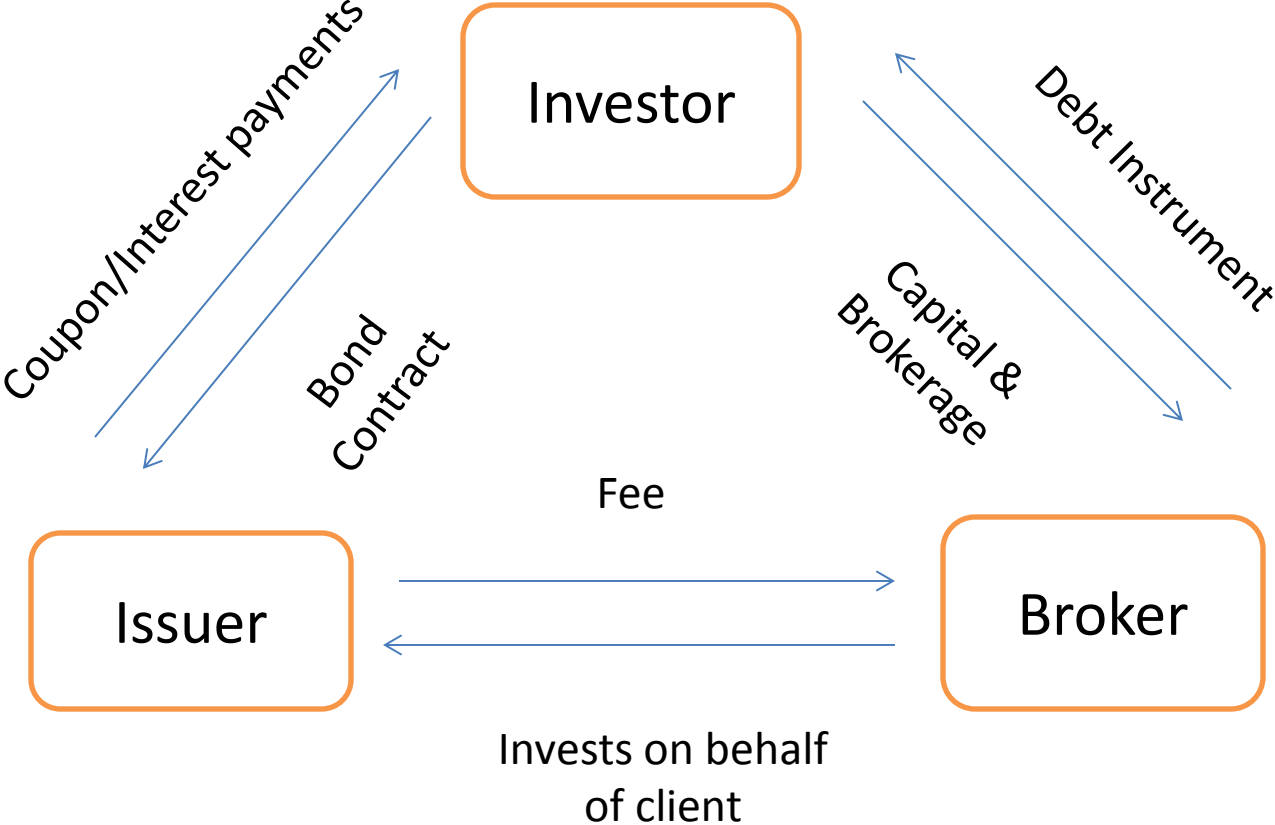
Government issued security

- issued by a government authority, with a promise of repayment upon maturity (backed by said government)
- Low risk
- Low return

Corporate debt security

- issued by a corporation and sold to investors (backing is the payment ability of the company i.e. money to be earned from future operations. Also the company's physical assets may be used as collateral for bonds)
- Higher risk
- Interest rates are almost always higher

Circular Flow



Currency Market

The market in which participants from around the world are able to buy, sell, exchange and speculate on different currencies.

TYPES

- 1) Spot Exchange – To be settled on same day
- 2) Forward Exchange – To be settled at a day farther than spot date
- 3) Currency Future- Standardised future contracts
- 4) Swap Transactions – Agreement to Two exchanges in currency , one at spot and one at forward. Exchange of income stream
- 5) Currency Options – Gives Right BUT not OBLIGATIONS.

CHARACTERISTICS

- Large Market and still growing
- Extensive use of Information and technology
- Open 24 Hours a day during week days
- Not Regulated
- Profit from both strong

PARTICIPANTS

- Commercial banks
- Forex Brokers
- Authorised dealers
- Regulatory Authorities





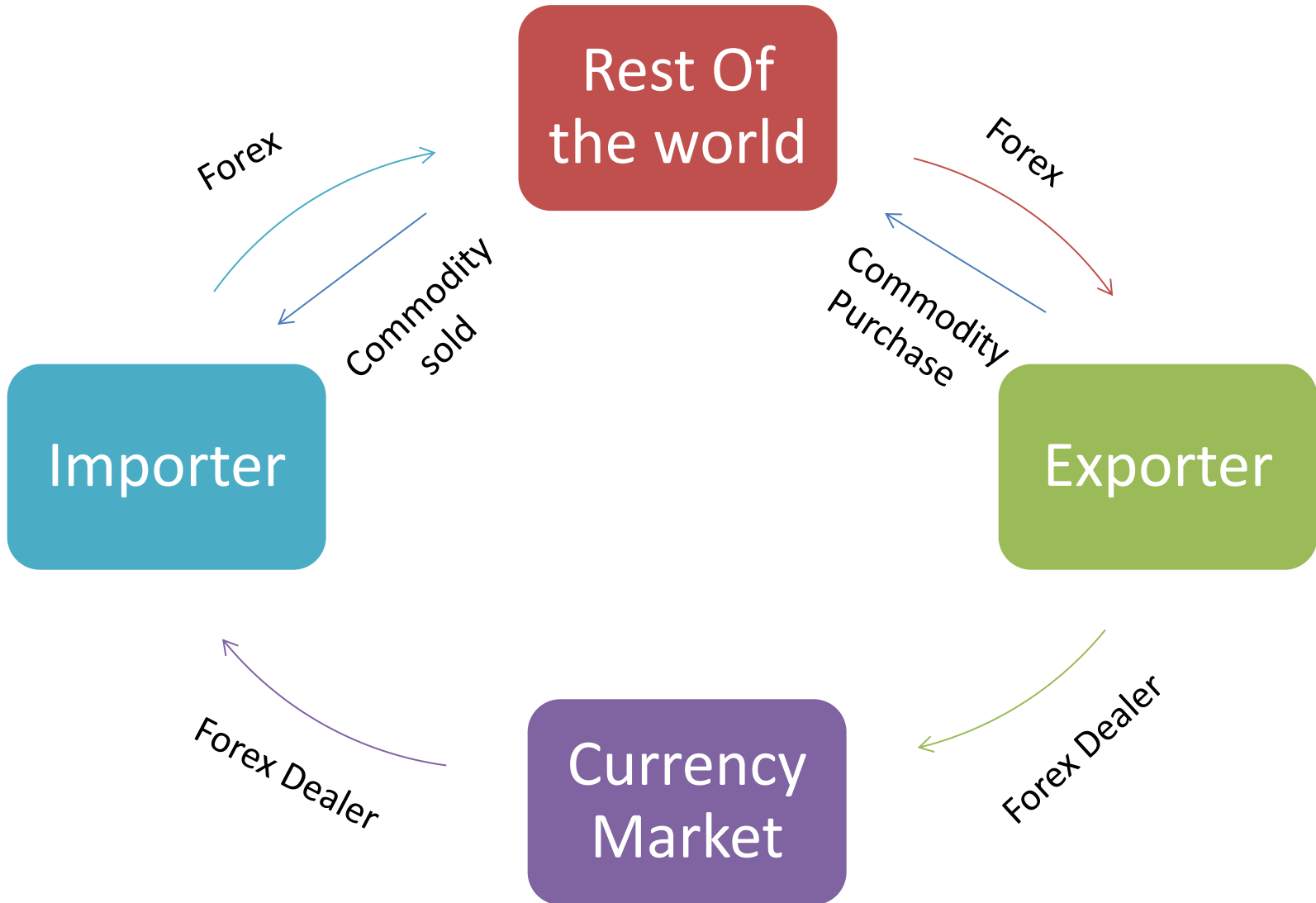
INVOLVES

- Speculations
- Transfer of funds

FACTORS

- National Economic Performance
- Central Bank Policy
- Interest Rate
- Trade Balance
- Political factors
- Market Sentiments
- Unforeseen Events

CIRCULAR MODEL



Commodity Futures Market

- An agreement to buy or sell a set amount of a commodity at a predetermined price and date.
- Buyers : to avoid the risks associated with the price fluctuations of the product or raw material
- Sellers : to lock in a price for their products.

Characteristics

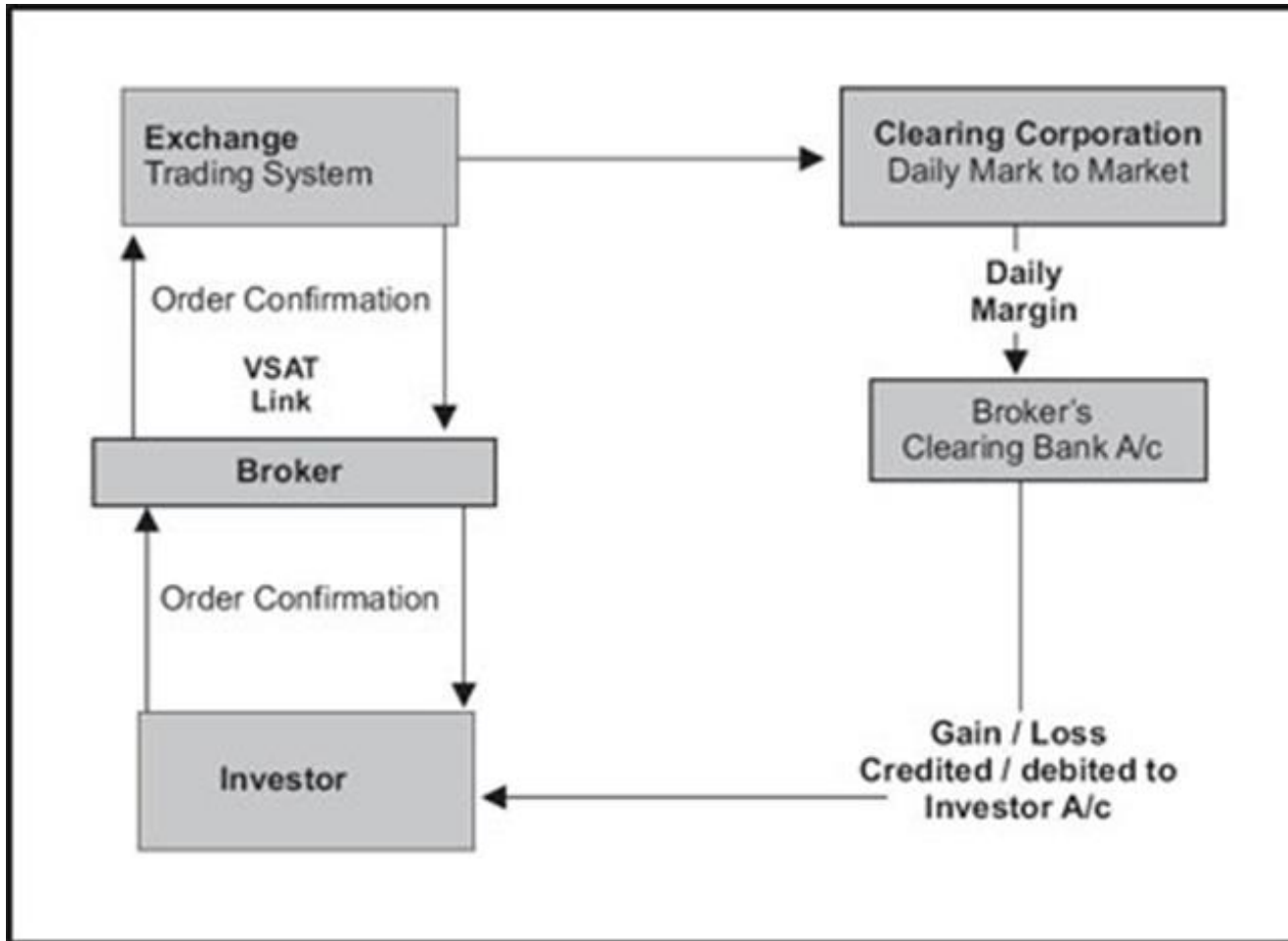
- Organized
- Standardized
- Eliminates Counterparty Risk
- Facilitates Margin Trading
- Closing a Position
- Regulated Markets Environment
- Physical Delivery

Participants

- Hedgers
- Speculators and
- Arbitrageurs



Process Flow in Commodity Futures Trading





"Good day in the market?"

THANK YOU

- ANUSHREE RAHA
- RAGHAV BHATT