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TRENDS IN THE FINANCIAL MARKET – THE EXCHANGE RATE POLICIES AND RELATIVE ADVANTAGE FOR ME AND INDIAN MONEY MARKET

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Abstract
The Economic Trends has been on a tremendous change across the globe. The COVID pandemic has even devastated the income economy, particularly of the mid-segment people. This has worsened the economic situations and affected the financial market globally. In this paper we discuss the factors for the increased relationship related to the exchange rate fluctuations and its reflection in the economic growth in the emerging market economies. The study tries to understand the factors for fluctuations in the currency market and its relations to the money market development. The data needed for the study were collected from most of the published studies in the area of currency exchange rate fluctuations. There are many indications in this regard related to the increased exchange rate fluctuations associated with multiple factors namely currency mismatches, market imperfections, de-regularities and other constituent factors, that were addressed during the study. There were diversified studies happened in this area of currency rate fluctuations. The rate of exchange is a volatile situation with too many factors affecting the currency market. Hence one particular factor cannot be termed as a factor for fluctuations of changes, multiple factors including the geo-political factors, futility in the political structure, changes in the economy of related products and production etc. were affecting the money market values. Hence various studies that happened constituted the part of this study. Methods adopted for the study is basically the evaluation of the rate of change in the money market, across the nations mostly collected from previous researches. The study concludes explaining the basic relationship to the flexibility in the currency exchange rate and the developments happening in the financial markets is less evident. Diversified factors influence the financial market developments. The credibility addressed for any chosen money market regime has got a non-trivial role. In addition, the relation of the currency rate fluctuations as well as the financial market situation is a subject of reverse causality. Basically, the study reflects the choices with regard to the exchange rate flexibility and its real reflections on the economic consequences.

Keywords: Currency Rate Fluctuations, Market Shift, Economic growth, Financial Market volatility.

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Introduction

Exchange rates in the currency market have become the key trends in the money market, bringing in substantial changes in the money market economy. With the recent attack of the pandemic, the whole money market situations have changed substantially bringing in changes in the national income economy of the nations. Nations started attempting to diversified exchange rate requirements which was influenced by multiple factors including the diversified levels of exchange rates, restricting the flexibility in the currency markets, among various factors, the challenges in the money market and the reflections in the money market system. In the past decades, few economies which were on the development did such studies. The alternatives that imply the market needs always has the short-run and long-run reflections in the money market.

The shifts in the money market can be identified from the shifts in the currency rate fluctuations. Flexibility in currency fluctuation scenario always defines a critical role in the economy. This is very much needed in bringing down the incentives with regard to the foreign exchange borrowings. This will reduce the currency mismatches as well deepen the domestic financial markets. In the current business practices, the financial development and exchange rate flexibility are performing mutually exclusive, is likely to be reflective on diversified stages of financial updates. In this paper, we try to look into the various trends in the current financial Markets, through the diversified Exchange Rate Policies and its relative advantage for the Middle East and the Indian Money Market.

The focus of the study is in the following lines: -

- Does there exists a prominent connection between fluctuating rates of exchange and the economic changes that exists within developing nations?
- The performance of the local currency towards the government bonds and derivatives and its implications in exchange rate markets.

The best understanding in this regard was that:

- ➢ It needs to understand that there exists no robust co-relation between long-run growth and exchange rate fluctuations.
- ➢ During the later period, the exchange rate flexibility was beneficial in containing the output volatility in the previous periods.
- ➢ In addition, it is quite understood that the increased exchange rate fluctuations are associated with cutting down of the vulnerabilities like currency mismatches. Still its impact in the financial sector is not confirmed.

1. **Economic Fluctuations and the Currency Market Fluctuations:-**

Currency rate fluctuations are happening every time depending on the changes in the market trends and market needs. The real economic trends are always on the move, bringing in volatility in the situation and in the emerging market conditions. The depth of the money market

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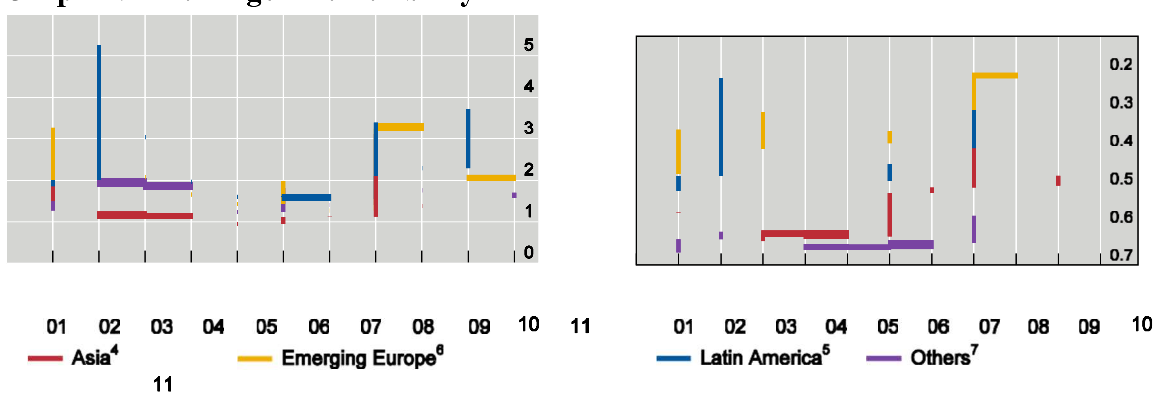
fluctuations, which has been operating through diversified channels, always got implications in the real market economy through its much deserving growth prospects. The studies in the area is regarded specifically outline shifts in currency markets in the money market economy based in the previous years. These benefits to discuss the relevant channels of economic changes better influencing the real market rate fluctuations and little documents the importance (Mirdala, R.2016).

1.1 Trends in the fluctuations in currency rate fluctuations.

The fluctuations in the money market flexibility is detailed in the Graph 1. It clearly explains that the degree of exchange rate flexibility has never gone for a considerable change during the last decade. While addressing the studies explained in the Graph 1, it is understood that, the deviation from standards of the changes in the currency market rates though it appears beneficial, the effective currency rate fluctuations seems lower over time across the regions of Asia, Latin America as well as central and eastern Europe. Flexibility in the market trends was evident during the financial concerns in most regions (Comunale, M. 2015). The unilateral currency rate fluctuations on the standard base currency usually the euro or the dollar rates become more flexible during the period within Asian nations as well as was on an emerging trend in EU nations.

Graph 1: Exchange rate flexibility



Sources: BIS; Aizenman et al (2010); authors' calculations.

Recent trends in currency value fluctuations across nations is reflected in the financial markets. This is explained in Table 1. Comunale, M. (2015) says that when the data in this regard is analyzed, it shows a very specific shift in the part of the floating money markets, when we compare this with the earlier details. This explains that the pegged exchange rate measures and the managed regimes will become irrelevant.

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Table 1 Exchange rate regimes

	2011				2019			
	Asian Region	Middle East	Europe	Others	Asian Region	Middle East	Europe	Others
Peg.	38%	1%	21%	51%	12%	13%	1%	51%
Crawling Peg.	1%	1%	1%	26%	12%	115%	0%	0%
Managed.	43%	13%	41%	1%	23%	0%	21%	0%
Floating.	21%	83%	42%	26%	57%	70%	81%	51%

Source: Financial reports on Exchange Arrangements and Exchange Restrictions

1.2 The focus of on long term growth and the Currency Market Fluctuations.

The fluctuations experienced in the in the currency market has been reflective in the long-run economic growth. This is turn results in impact on productivity and growth. Thus a better understanding of the level of activities and the fluctuations in the currency rate system will come into discussions here. While reviewing the previous studies in this regard, it considers in favor of currency devaluation in currency exchange rate better benefitting the development of indigenous industries. Most of the emergent markets still continue to maintain developmental models much depended on imports and exports. Kalaiselvi V (2012) explains the study sample for currency rate underrating which will benefit the growth in case of management of the business in the manufacturing sector is reflected through impact of the disproportionate failures in the market failures or even the weakening of the institutions. In addition to this, the trend appreciations and depreciations will have negative impacts on direct investments based on the industrial settings. The study in this regard explains that containing the currency rate flexibility will be a fact to be under consideration, especially for production or manufacturing sector.

1.3 Output Volatility and Exchange Rate differences.

The output volatility has its reflections to the exchange rate fluctuation. When the market structure shows movements in terms of the market demand and supply, there will be the reflections in the market structure brining in flexibility in the market demand and market need. The changes in the money market has to be discussed in a very positive point of discussions, to benefit the potential level to bring in more market trends based on the money market movements.

While discussing the Graph 2, which discusses the currency-rate and output changes, the study confirms explains the existence of a tie-up with the currency fluctuation rate volatility towards the output results based on the emerging economies. This is explainable while we consider the market fluctuations as a measure of standard deviation based on a quarterly real GDP growth.

It needs to understand that the increased flexibility in currency rate is always considered as a

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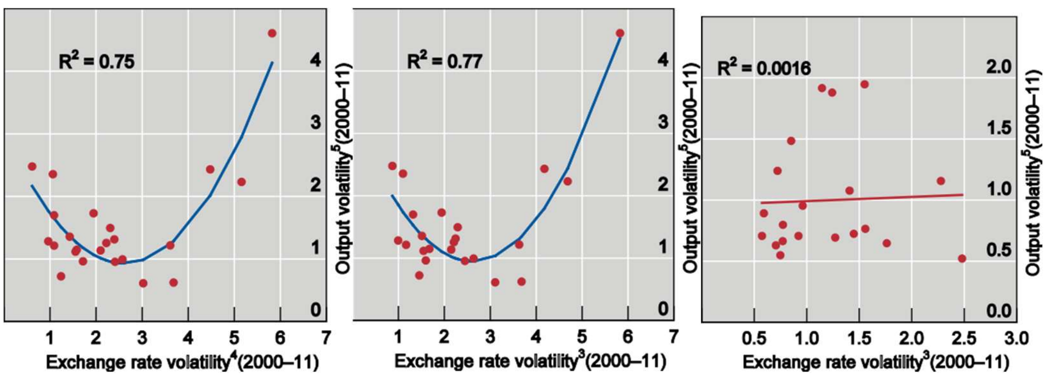
shock absorber, which helps to protect the money market from any kinds of market shocks. In most of the cases, the money market economy can usually function as a major consideration for volatility. Thus it can benefit in case of exchange rates performing an overshooting behavior. Thus in most of the cases, this will act as sources for shocks to themselves. In cases of high currency rate deviations, there exists a potential disruption for the capital flows affecting the crisis in balance of payments. In few other cases, sometimes, the higher the currency-rate fluctuations exaggerate basic result on the structural adequacies in the money market, leading to the economic mismatches.

Graph 2 : Exchange rate and output volatility



Data related to the money market crises by Isik, N., & Yilmaz, S. (2017) tries to differentiate the EMEs in the reflective sample which was reflective of the currency crises during the early decades namely India, Middle East as well as other nations in Asian regions. The economies are reflected in the graph as an upward slope, explaining the practice of the financial shocks and its nature seems to be most important. By eliminating the monetary concerns of scale, which were reflective in the currency crises, the rate at which the exchange rate fluctuates, appeal to be benefitting the in considering the output volatility. It is the need to understand from our basic sample from advanced economic nations, it is understood to have no correlation reflected in relation to the currency rate fluctuations and the resultant volatility in the earlier periods. On a theoretical analysis, by stabilizing the purpose of fluctuating exchange rates, this can be reflective to the market from the impacts in currency rate regimes on monetary as well as fiscal discipline. (Mirdala, R. (2016).

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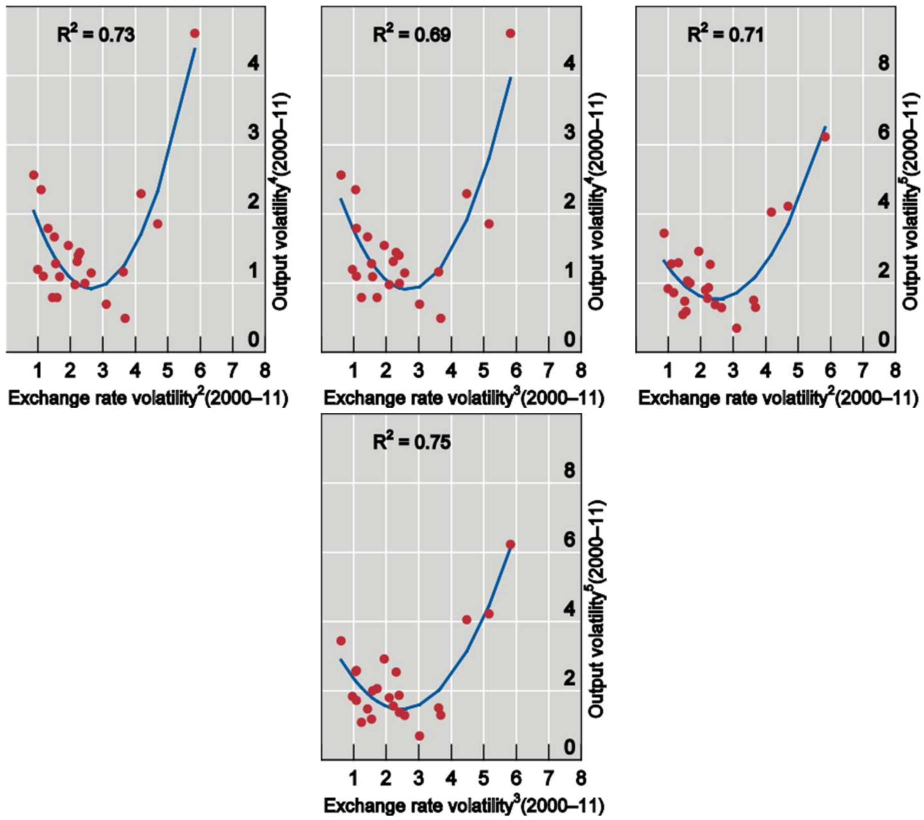
Graph 3 : Exchange rate and output volatility : Alternative measures



Sources: IMF, World Economic Outlook; Datastream; national data; BIS calculations.

While evaluating representations in the Graph 3, it is understood that there exists a relation within the currency rate and output volatility in developing economies, appear to various other alternative measures, during the previous decades. Further the first and second panels in the graph, explains the output volatility as a standard deviation based on the residuals of a process of real GDP calculations. While looking for the 3rd and the 4th quadrants, the SD of an expected result was reflected (Saha J,2013).

Thus from the graph, it is understood that the existing relationship is basically dependent on the period of time period as well as on the crises of incidents. Likely incidents of diversified practices of shocks, such as abrupt end to the capital flows, can bring large currency rate movements, is reflective in this study. Thus if the emerging economies that experienced the money market fluctuations, are not mentioned in the sample of study, the graph will be sloping downwards at the 3rd and the 4th panels.

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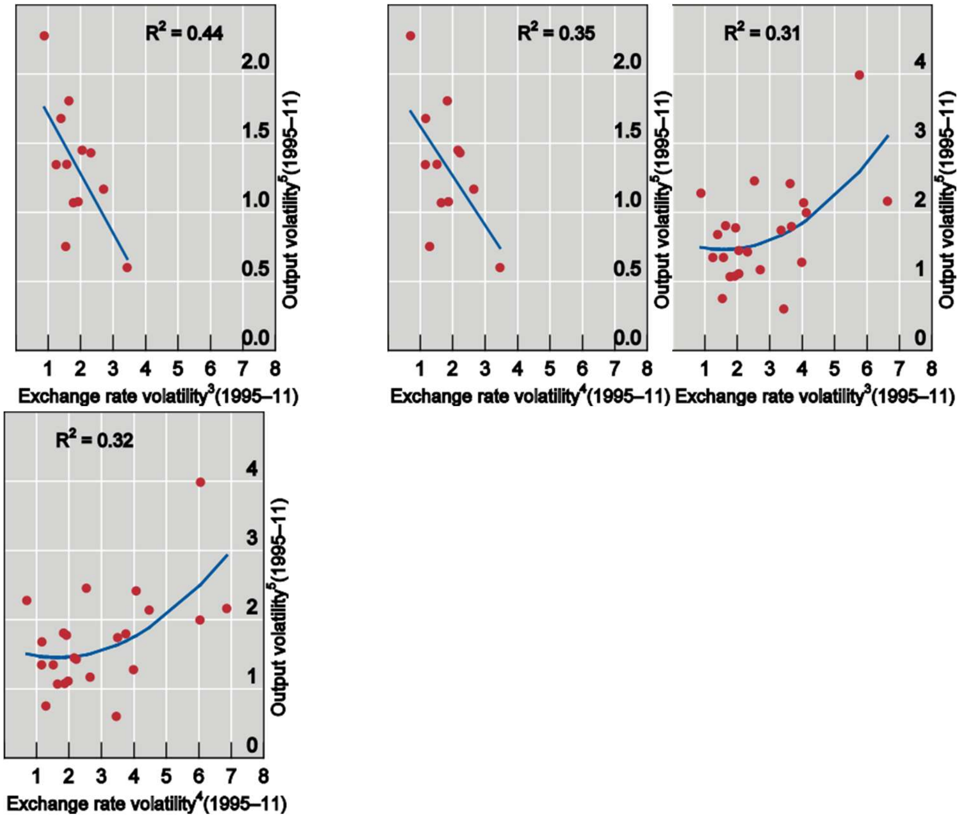
Graph 4 : Exchange rate and output volatility Alternative samples



Sources: IMF, World Economic Outlook; Datastream; national data; BIS calculations.

2. Currency-rate Fluctuations and Money markets

Currency rate fluctuations are a matter of grave concern for the economists as well as the business markets. The fluctuations in the business markets are really affecting the calculations in the industrial scenario and brining in much better fluctuations in the trends and business processes. Mazier, J., & Petit, P. (2013) feels that the level to which the fluctuations are happening and the mode / methods in which the same is happening needs to be verified and the proper attributes to be identified. It can also reflect the benefit of the money market development, basically in specific markets, identified in the currency market as well in the case of the hedging against the current exchange rate risk. The markets were hedging happens, will in turn, reflects the expected possibilities of currency rate fluctuations for any particular markets. The concerns in this situation need to be addressed specifically. There always exists a two-way relationship in consideration to the exchange rate flexibility as well as the balance sheet responses (Pal S, Kar S (2012). This is mostly in limited to the existence of mismatches in the currency markets. It is seen that there exits much fluctuating currency exchange systems, might benefit the decrease in exchange rate fluctuations as well as unhedged borrowing.

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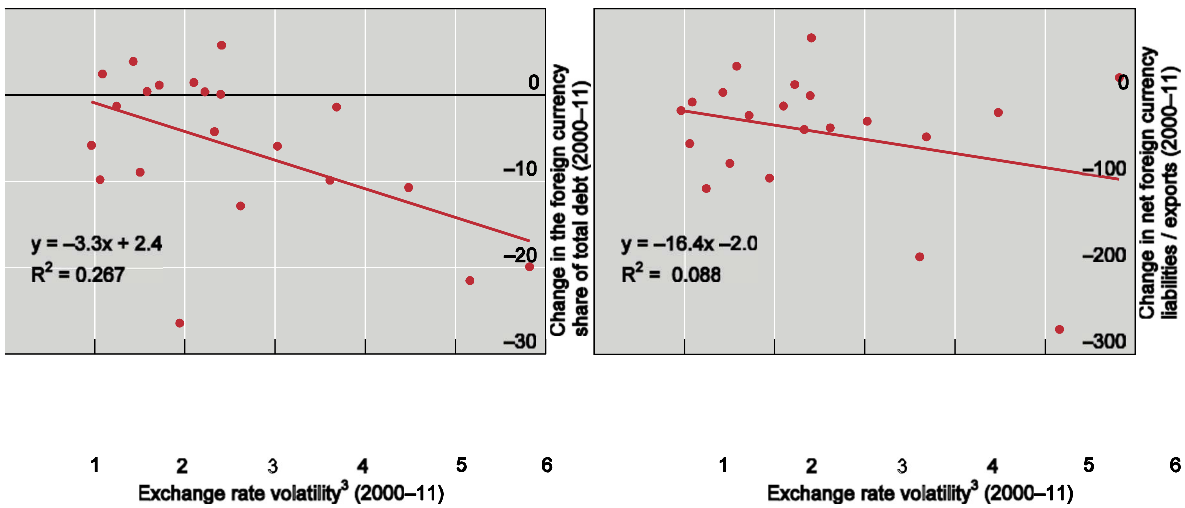
Greater to the requirement to the limits to which any exchange rate mismatches happens is always better addressed from the view of the money market need and the money market changes. While on the other side, the level to which the exchange rate flexibility that has happened too depends on the basic concerns, as discussed as "fear of floating". (eg Gnimassoun, B., & Coulibaly, I, 2014). When considered with basic essence related to huge fluctuations in money market, in relation to the liability dollarization, policymakers will be unwilling to provide more flexibility in currency rate fluctuations.

Graph 5 Currency-rate fluctuations and Exchange rate volatility



Sources: IMF; CEIC; Datastream; national data; BIS.

The Graph five, provided here is reflective of the exaggerated currency rate fluctuations, that has basically related to the reduction of money market fluctuations and the currency mismatches during the past. This explains that if in case the money fluctuations are discussed in international currency denominations, the value of overall investments as well as the foreign liabilities will be considered as the share of exports. Pal S, Kar S (2012) considers that this needs to be consistent in relation to the two-way relationship with in the financial discrepancies, as well as the currency rate fluctuations. The basic currency fluctuations basically permitted financial responsibilities, better to the interest rate policy benefitting the money market economy (Dabrowski, M., & Wróblewska, J.,2015). This can benefit the smoothening of the market shifts.

The increase in the exchange rate flexibility, this can benefit the money market economy and in the exchange rate markets. The central banks are always benefitted from the currency market fluctuations, coinciding with the market movements through the sterilization of the security markets. Basically another important consideration in this regard is in investments in the foreign money market investment, which might affect the local currency bond market. De Grauwe, P. (2013) feels that the fixed currency market rate system will reduce the immediate and intermediate currency rate risks thus encouraging FDI in local money markets. Indeed,

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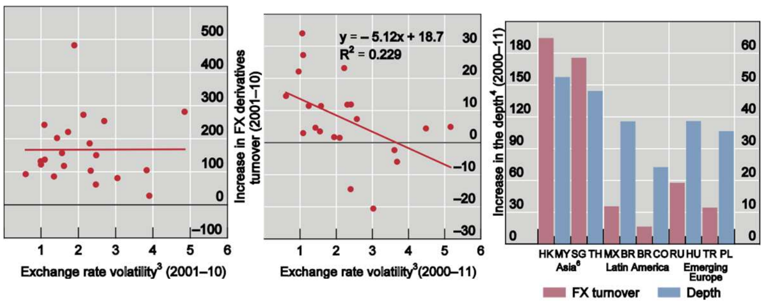
Arratibel, O., Furceri, D., Martin, R., & Zdzienicka, A. (2011) explain that the increase in the rate in the emerging currency market, better benefit the potential requirement in market diversification and benefitting the international investment sectors. This is basically seen in cases where investors need no hedging in the financial markets.

Graph 6 Financial market development and exchange rate volatility



Source: BIS.

It is needed to look into the prerequsite with regard to the fixed exchange rates. This is supposed to promote foreign investment in the industry. This is considered as a credibility of the economy, trying to bring down the currency rate fluctuations. In relation to this, a fluctuating money market practice that can encourage international investments to increase the financial instruments and securities into the financial markets, in case the situation will never oversee the money market to be moving in relation to the forex intervention, shifting the focus from the equilibrium in the rate considerations (Das, Beejata, Mili, Nitashree 2012). This is much evident from the Graph 6. It reflects better the exchange rate, fluctuations which had negative reflections in relation to the local money market scenario while looking into the emerging economies, which we considered in our sample.

While discussing of the volatility of the exchange rates, firms might extend of the hedging processes, in relation to against any unexpected rate changes. This might contribute to better capital changes in forex and in the case of market derivatives. Meanwhile, the currency rate flexibility has basically got the relevant factors which might be reflective of the developments in the derivatives markets. Important players in the system mostly involve the Capital account openness and market infrastructure. Bussière, M., Guillaume, G., & Steingress, W. (2017) explain the changes in the money market system. This is in the developing markets, which has positive correlation based on the per capita income, benefitting the demand for external trade as well leading towards much better financial gains. Das, Beejata, Mili, Nitashree (2012) and De Grauwe, P. (2013) identified the reasons including the international sales as well as the foreign trade prompt firms to benefit in the hedging process.

The important types of capital flows in the international currency markets are the foreign direct investment in which foreign investors take stakes in existing companies or build new facilities

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in the recipient market; and then the foreign portfolio investment, in which foreign investors buy, sell and trade securities in the recipient market. FDI seems to be a critical source of funding, for growing economies namely China and India. Governments generally prefer FDI to foreign portfolio investments, because the latter is hot cash that can leave the country quickly when conditions grow tough. This capital investment can be sparked in case of any negative event, including the devaluation of the currency.

Thus, based on the study, the growth in the local money market and its reflections in the stock and bonds market, derivatives markets were mingled with the risks involved for the international investors, will, over a period, remain the best in any controlled money market regimes in the threshold of underdeveloped hedging markets. In any case, it is understood that insufficient hedging can lead to crises in future. Looking into the concerns, the fluctuating exchange rate might not be considered to be lead to any a much depth and to any organized share market (Graph 6). It is described as an extent of growth in the hedging markets, which might influence the desired degree of exchange rate flexibility. Thus a crucial policy challenge is seen from the trends and changes.

Benefits expected for the Investors: Basically, the following benefits are expected for the investors as follows:-

Invest Overseas: Based on the foreign market fluctuations, when the market seems to be weakening, investors believe in strong overseas markets, because the returns will be boosted by foreign currency gains.

Invest in Multinationals: It is usual for multinational companies to derive a substantial part of revenues and earnings from foreign investments and businesses. Earnings of multinationals are boosted by the weaker dollar, which should translate into higher stock prices when the exchange rates are weak.

Refrain From Borrowing in Low-Interest Foreign Currencies : It is better to understand that never to borrow in foreign currency if it is liable to appreciate when we do not understand or cannot hedge the exchange risk.

Hedge Currency Risk : Adverse currency moves can significantly impact your finances, especially if you have substantial forex exposure. But there are plenty of choices to hedge currency risk, such as currency options, currency futures, currency forwards as well as exchange traded funds.

Conclusions

Scientific Significance of the Study

Far-Reaching Currency Impacts

There are many scientific significances to the study which has far reaching effect in foreign market evaluation and international trade. The Export – Import policies of government can be developed and implemented basically with the understanding of the money market fluctuations. Individually people do not pay attention to exchange rates because rarely it affects in a big way to individual life. The typical person's daily life is conducted in their domestic currency. Exchange rates only come into focus for wholesalers doing bigger business

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in bulk amounts and mostly in international markets, occasional transactions, foreign travel, import payments or remittance in overseas markets. An international traveler might harbor for a strong domestic currency because that would make travel to other nations inexpensive. But the downside is a strong currency can exert significant drag on the economy over the long term, as entire industries are rendered non-competitive and thousands of jobs are lost. While some might prefer a strong currency, a weak currency can result in more economic benefits, which is typically based on the currency requirements.

The value of the domestic currency in the foreign exchange market is a key consideration for central banks when they set monetary policies. Directly or indirectly, currency levels may play a role in the interest rate you pay on your mortgage, the returns on your investment portfolio, the price of groceries at your local supermarket, and even your job prospects.

Currency Impact on the Economy

A currency's level directly impacts the economy in the following ways:

Merchandise Trade: This refers to a nation's imports and exports. In general, a weaker currency makes imports more expensive, while stimulating exports by making them cheaper for overseas customers to buy. A weak or strong currency can contribute to a nation's trade deficit or surplus over time. For example, assume you are a U.S. exporter who sells widgets at $10 each to a buyer in Europe. The exchange rate is €1=$1.25. Therefore, the cost to your European buyer is €8 per widget. Now let's say the dollar weakens and the exchange rate is €1=$1.35. Your buyer wants to negotiate a better price, and you can afford to give them a break while still clearing at least $10 per widget.

Thus, we can see that the weaker the currency, this will allow the export business to remain competitive in international markets. Conversely, a stronger currency can reduce export competitiveness and make imports cheaper, which can cause the trade deficit to widen further, eventually weakening the currency in a self-adjusting mechanism. But before this happens, export-dependent industries can be damaged by an unduly strong currency.

Capital Flows: Foreign capital tends to flow into countries that have strong governments, dynamic economies, and stable currencies. A nation needs a relatively stable currency to attract capital from foreign investors. Otherwise, the prospect of exchange-rate losses inflicted by depreciation in currency may deter overseas investors.

Inflation : A devalued currency can result in "imported" inflation for countries that are substantial importers. A sudden 20% decline in the domestic currency could result in imports costing 25% more, as a 20% decline means a 25% increase is needed to get back to the original price point.

Interest Rates : As mentioned earlier, exchange rates are a key consideration for most central banks when setting monetary policy. A strong domestic currency exerts drag on the economy, achieving the same result as a tighter monetary policy (i.e. higher interest rates). In addition, further tightening of monetary policy at a time when the domestic currency is already strong

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may exacerbate the problem by attracting hot money from foreign investors seeking higher yielding investments (which would further strengthen the domestic currency).

The study tried to look into the details of the benefits from the currency rate volatility, the real income economy as well as financial derivatives and markets. The basic understanding of the derivatives markets were motivated from the observations that may emerge from developmental economies which have been a matter of consideration in the foreign exchange markets. This was, during the last decades to maintain the currency fluctuation and with the possibility to bring down appreciation of market pressures in the money market. Based on the level of the interventions, in restriction to the overall gain of the exchange rate flexibility, there can be the reflections of the implications (Lane, P. R., & Milesi-Ferretti, G. M. 2012). This is reflective in terms of better economic as well as money market developments and outcomes. From this study, the basic findings can be arrived at namely there existed neither significant relation nor any link with the exchange rate flexibility as well as long-run productivity growth. In addition, the relationship with regard to the currency rate fluctuations and output volatility under consideration is plotted in the U-form in the graph. Currency rate fluctuations are beneficial in some cases, but much flexibility can lead to instability in any real economy. This too gets reflected in the way of the financial shocks expected to happen in the financial markets. Basically while focusing with no real currency crises, the changes in the currency rate flexibility, is likely to appear to a much bigger beneficial output for stability.

At the end the basic relationship in relation to the flexibility in the currency exchange rate and the developments happening in the financial markets is less evident. Diversified factors influence the financial market developments. The credibility addressed for any chosen money market regime has got a non-trivial role. In addition, the relation of the currency rate fluctuations as well as the financial market situation is a subject of reverse causality.

Basically the study reflects the choices with regard to the exchange rate flexibility and its real reflections on the economic consequences. Yet, the basic relationship with regard to the currency fluctuation rates and the monetary conditions seems to be confusing, as well needs to verify various contributing factors namely market imperfections, income level, or even the financial situations in the market.

Currency moves can have a wide-ranging impact on a domestic economy and globally as well. When the greenback is weak, investors can take advantage by investing overseas or in other multinationals. Because currency moves can be a potent risk when one has a large forex exposure, it may be best to hedge this risk through the many hedging instruments that are available in the market.

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