MONEY MARKET

SUBJECT:FINANCIAL MARKETS AND INSTITUTIONS

STEFY M M
DEPT OF COMMERCE

ACADEMIC YEAR:2020-2021

NATURE AND DEFINITIONS

- Money market refers to institutional arrangements which deal with short term fund.
- It deals with near substitutes for money or near money like trade bills, promissory notes and governments papers drawn for a period not exceeding one year.
- It deals with highly liquid marketable securities.
- The RBI defines money market as," The center for dealing,mainly of short term character, in monetary assets, it meets the short term requirements of borrowers and provides liquidity or cash the lenders."

FEATURES OF MONEY MARKET

- It is a market for short term funds or financial assets called near money.
- It deals with financial assets having a maturity period of one year.
- In money market transactions can not place formal like stock exchange, only through oral communication, relevant document and written communication transaction can be done.
- The important components of money markets are the central bank, commercial banks, non banking financial institutions, discount houses and acceptance houses.
- It is not a single homogeneous market,comprises of several submarket like call money market,acceptance and bill market.

- It is a collection of market for following instruments- call money, notice money, repos, term money, treasury bills, commercial bills, certificate of deposits, commercial papers bill of exchanges, treasury bills, etc.

  The borrowers in the money markets are traders , manufactures ,speculators, and even government institutions.

  The borrower will get fund for periods varying from a day,a week ,a month ,three to six months.

OBJECTIVE OF MONEY MARKET

- To provide space to overcome short term deficits
- To provide a parking place to employ short term surplus funds
- To facilitate the central bank to influence and control liquidity in the financial system though its intervention in money market.
- To provide a practical access to consumers of short term funds to meet their requirements rapidly, sufficiently and at rational costs.

Features of a developed money market

- Well organized banking system.
- Existence of a central bank.
- Availability of proper credit instruments.
- Proper coordination of different sectors.
- Lack of diversity in money rates of interest.
- Presence of bill market.
- Sufficient resources.
- Existence of secondary market
- Other factors

IMPORTANCE OF MONEY MARKET

- Development of capital market
- Financing trade
- Financing industry
- Helps commercial banks
- Helps central bank
- Guide and help to government
- Encourages savings and investment

COMPOSITION OF MONEY MARKET

Money market is not a homogeneous market.it is heterogeneous market ,which consists of sub markets.it consists of

1. Call money market
2. Loan market
3. Commercial bill market
4. Acceptance market
5. Treasury bills market

CALL MONEY MARKET

- Call money is short term finance repayable on demand, with a maturity period of one day to fifteen days , used for inter-bank transactions.
- The money that is lent for one day in this market is known as “call money” and , if it exceed one day , is referred to as “notice money”

ADVANTAGES OF CMM

- High liquidity
- High profitability
- Maintenance of SLR
- Safe and cheap
- Assistance to central bank operations

DRAWBACKS

- Uneven development
- Lack of integration
- Volatility in call money rates

2. INTERBANK TERM DEPOSIT/LOAN MARKET

These are the loans between banks. It is like call money market. But the period of this type of loans is over 14 days and generally up to 90 days without any collateral security. The lenders cannot recall these loans back before maturity. DFHI is the important institution ,which plays an important role in the call and interbank loan market by arranging, lending and borrowing short-term funds.

MERITS OF LOAN MARKET

- Profitability
- High liquidity
- Helps to maintain statutory reserve requirements
- Safe
- Helps the central bank

DEMERITS

- Confined to big cities
- Lack of integration
- Call money rates volatile in nature
- Small size

3.COMMERCIAL BILL MARKET OR DISCOUNT MARKET

An instrument in writing containing an unconditional order, signed by the maker, directing a certain person to pay a certain sum of money only to or to the order of a certain person or to the bearer of the instruments.

TYPES OF BILLS

- Demand and usuance bills
- Clean bills and documentary bills
- Inland and foreign bills
- Export bills and import bills
- Indigenous bills
- Accommodation bills and supply bills

ADVANTAGES OF BILL MARKET

- High liquidity
- Certainty in payment
- Self liquidating in character
- Ideal for investment
- Quick yield
- Control
- More elastic monetary system.

DRAWBACKS

- Lack of bill culture
- No rediscounting between banks
- Absence of secondary market
- No proper development of foreigen trade
- Domination of indigenous bankers
- Cumbersome procedures
- Commercial banks attitude
- Absences of specialized institutions

BILL MARKET SCHEME

- SCHEME OF 1952
- SCHEME 1970
- Derivative Usance promissory notes(DUPN)

TREAURY BILL MARKET

- It refers to the market where treasury bills are bought and sold.
- Types: ordinary - issued to public

Adhoc -Issued by state governments , semi government department and foreign banks

- One the basis of period :91,182,364 days
- Participants :RBI and SBI ,commercial bank ,state govt, financial institutions etc.
- Merits : safety, liquidity, ideal short term investment ,statutory liquidity requirements , source of short term funds.
- Demerits :poor yield , absence of competitive bids, absence of active trading.

MONEY MARKET INSTRUMENTS

- TREAURY BILLS
- CALL/NOTICE MONEY
- COMMERCIAL BILLS
- CERTIFICATE OF DEPOSITES
- COMMERCIAL PAPERS
- INTERBANK PARTICIPANT CERTIFICATES
- MONEY MARKET MUTUAL FUND
- REPOS

CERTIFICATES OF DEPOSITS

- CD are short term deposit instruments issued by banks and financial institutions to raise large sums of money.
- Certificate of deposit is a negotiable money market instrument and issued in dematerialized form or as a usance promissory note, for fund deposited at a bank or other eligible financial institution for a specified time period.

COMMERCIAL PAPER

- Commercial paper is an unsecured money market instruments issued in the form of a promissory note.
- Commercial paper is a new instruments for financing working capital requirements of corporate enterprises.
- CP is issued at a discount to their face value.
- CP can be issued for maturities between a minimum of 7 days and maximum up to 12 months from the date of issue.

TYPES AND NEW FORMS OF COMMERCCIAL PAPER

- Direct papers: A direct paper is issued directly by the company to the investors without any intermediary.
- Dealer paper: A dealer/merchant banker on behalf of a client issues these types of commercial papers.
- NEW FORMS OF CP

1. MASTER NOTE
2. MEDIUM TERM NOTES
3. ASSET BACKED COMMERCIAL PAPER.

INTERBANK PARTICIPATION CERTIFICATE

- It is a short term money market instrument used by banks to meet their short term requirements.
- Introduced in 1977.
- The basic idea behind this scheme was to even out the excess surplus funds with the banking system.
- Two types of IBPs were introduced

  *Interbank participation certificate with risk sharing .

  *Interbank participation certificate without risk sharing.

MONEY MARKET MUTUAL FUNDS(MMMFS)

- A money market fund is a mutual fund that invests solely in money market instruments.
- Money market funds are generally the safest and most secure of mutual fund investments.
- Securities in the money market are relatively risk free.
- Types of money market mutual funds:

  *Institutional money market mutual funds

  *Retail money market mutual funds

RE-PURCHAE AGREEMENTS (REPOS) READY FORWARD TRANSACTION

- A repurchase agreements is the sale of securities(usually government debt) to an agreement to buy the securities back later.(repo)
- A reverse repo is the purchase the securities to an agreement to sell back later.
- All government securities are eligible for repos.
- RBI uses repo and reverse repo as instruments for liquidity adjustment in the system.
- It helps banks to invest surplus cash.

DIFFERENCE BETWEEN CAPITAL MARKET AND MONEY MARKET

- FUND
- NEED
- INSTRUMENTS
- INSTITUTIONS
- RELATION WITH CENTRAL BANK
- REGULATION WITH CENTRAL BANK
- DEGREE OF RISK

STRUCTURE OF INDIAN MONEY MARKET

UNORGANIZED BANKING SECTOR

- INDIGENOUS BANKERS
- MONEY LENDERS
- CHITS

ORGANIZED BANKING SECTOR

- RBI
- BANKS
- GOVERNMENTS
- FINANCIAL INSTIUTIONS
- CORPORATE FIMS
- INSTITUTIONAL PLAYERS
- DISCOUNT HOUSES AND PRIMARY DEALERS

DEFECTS OF INDIAN MONEY MARKET

- EXISTENCE OF UNORGANIZED MONEY MARKET
- NON-COORDINATION OF ORGANIZED AND UNORGANIZED SECTOR
- MULTIPLICITY IN RATES OF INEREST
- SEASONAL STRINGENCY OF FUNDS
- ABSENCE OF BILL MARKET
- INADEQUATE BANKING FACILITIES
- ABSENCE OF WELL ORGANIZED BANKING SYSTEM
- ABSENCE OF SPECIALISED FINANCIAL INSTITUTIONS
- ABSENCE OF MOVEMENTS OF FUNDS

RECENT TRENDS IN INDIAN MONEY MARKET

- Integration of organized and unorganized money market
- Enlargement of call money market
- Establishment of DFHI
- STCI
- Introduction of new instruments.

*treasury bills ,derivative usance promissory notes , repos, collateralized borrowing and lending obligation , money market mutual fund, deregulation of the interest rate,

- Setting up credit rating agencies
- Liquidity adjustment facility
- Introduction of interest rate swaps
- Electronic dealing system
- Strengthening of payment system.


Thank You!