



Participants in foreign exchange market can be categorised as follows:

Non-bank entities: MNCs, firms, individuals exchange currencies to meet their import or export commitments. There may be an exchange for travel and other needs too.

Banks: Exchange currencies as per the requirements of clients.

Speculators: Commercial and investment banks, MNCs, hedge funds, firms, individuals buy and sell currencies with a view to hedge their risk or earn profit due to fluctuations in the exchange rates.

Arbitrageurs: They make profit from price differential existing in two markets by simultaneously operating in two different markets.

Governments: Governments participate in foreign exchange market through the central banks. They constantly monitor the market and help in stabilizing the exchange rates.

Q7. Distinguish between Spot & Forward markets (Important)

A. Foreign exchange market includes both the spot and forward market.

In the spot market, foreign exchange transaction takes place at the spot rate - the rate paid for delivery within two business days as Indian market operates on T+2 business cycle. The rate quoted for settlement on the same day is known as Cash Rate and rate quoted and transacted for the settlement on next day is known as Tom rate.

In the Forward Market, buyers and sellers of currencies agree to deliver the currency at some future date. They agree to transact a specific amount of currency at a specific rate at a specified future date. The forward rate is not the same as the spot exchange rate that will prevail in future. The actual spot rate on that day may be lower or higher than the forward rate agreed today.

