MONEY MARKET

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MONEY MARKET

According to the Geoffrey, "money market is the

collective name given to the various firms and institutions that deal in the various grades of the near money."

Meaning of Money Market:

- Money market refers to the market where money and highly liquid marketable securities are bought and sold having a maturity period of one or less than one year. It is not a place like the stock market. The money market constitutes a very important segment of the Indian financial system. The highly liquid marketable securities are also called as ' money market instruments' like treasury bills, government securities, commercial paper, certificates of deposit, call money, repurchase agreements etc.

What is Money Market?

- As per RBI definitions “ A market for short terms financial assets that are close substitute for money, facilitates the exchange of money in primary and secondary market”.
- The money market is a mechanism that deals with the lending and borrowing of short term funds (less than one year).
- A segment of the financial market in which financial instruments with high liquidity and very short maturities are traded. It doesn’t actually deal in cash or money but deals with substitute of cash like trade bills, promissory notes & govt papers which can converted into cash without any loss at low transaction cost.
- It includes all individual, institution and intermediaries.

Features of Money Market?

- It is a market purely for short-terms funds or financial assets called near money.
- It deals with financial assets having a maturity period less than one year only.
- In Money Market transaction can not take place formal like stock exchange, only through oral communication, relevant document and written communication transaction can be done.
- Transaction have to be conducted without the help of brokers.
- It is not a single homogeneous market, it comprises of several submarket like call money market, acceptance & bill market.
- The component of Money Market are the commercial banks, acceptance houses & NBFC (Non-banking financial companies).

Objective of Money Market?

- To provide a parking place to employ short term surplus funds.
- To provide room for overcoming short term deficits.
- To enable the central bank to influence and regulate liquidity in the economy through its intervention in this market.
- To provide a reasonable access to users of short term funds to meet their requirement quickly, adequately at reasonable cost.

Importance of Money Market?

- Development of trade & industry.
- Development of capital market.
- Smooth functioning of commercial banks.
- Effective central bank control.
- Formulation of suitable monetary policy.
- source of finance to government.

Composition of Money Market?

- Money Market consists of a number of submarkets which collectively constitute the money market. They are,
- Call Money Market
- Commercial bills market or discount market
- Acceptance market
- Treasury bill market

Instrument of Money Market?

A variety of instrument are available in a developed money market. In India till 1986, only a few instrument were available. They were

- Treasury bills
- Money at call and short notice in the call loan market.
- Commercial bills, promissory notes in the bill market.

New instrument

- Now, in addition to the above the following new instrument are available:
- Commercial papers.
- Certificate of deposit.
- Inter-bank participation certificates.
- Repo instrument
- Banker's Acceptance
- Repurchase agreement
- Money Market mutual fund

Treasury Bills (T-Bills)

- Treasury bills are the most important marketable money market security.
- They are issued with three-month, six-month and one-year maturities.
- Treasury bills are purchased for a price that is less than their par (face) value; when they mature, the government pays the holder the full par value.
- Treasury Bills are so popular among money market instruments because of affordability to the individual investors.

Certificate of deposit (CD)

- A CD is a time deposit with a bank. Like most time deposit, funds can not withdrawn before maturity without paying a penalty.
- CD's have specific maturity date, interest rate and it can be issued in any denomination.
- The main advantage of CD is its safety.
- Anyone can earn more than a saving account interest.

Commercial paper (CP)

- Commercial papers is a short term unsecured loan issued by a corporation typically financing day to day operation.
- Commercial papers is very safe investment because the financial situation of a company can easily be predicted over a few months.
- Only company with high credit rating issues commercial papers.

Repurchase agreement (Repos)

- Repo is a form of overnight borrowing and issued by those who deal in government securities.
- They are usually very short term repurchases agreement, from overnight to 30 days of more.
- The short term maturity and government backing usually mean that Repos provide lenders with extremely low risk.
- Repos are safe collateral for loans.

Banker's Acceptance

- A banker’s acceptance is a short-term credit investment created by a non-financial firm.
- Banker’s acceptance’s are guaranteed by a bank to make payment.
- Acceptances are traded at discounts from face value in the secondary market.
- Banker’s acceptance acts as a negotiable time draft for financing imports, exports or other transactions in goods.
- This is especially useful when the credit worthiness of a foreign trade partner is unknown.

Structure of Indian Money Market?

I **ORGANISED STRUCTURE**

1. Reserve bank of India.
2. DFHI (discount and finance house of India).
3. Commercial banks

i. Public sector banks

SBI with 7 subsidiaries

Cooperative banks

20 nationalised banks

ii. Private banks

Indian Banks

Foreign banks

4. Development bank

IDBI, IFCI, ICICI, NABARD, LIC, GIC, UTI etc.

Continued.....

II. UNORGANISED SECTOR

1. Indigenous banks
2 Money lenders
3. Chits
4. Nidhis

III. CO-OPERATIVE SECTOR

1. State cooperative
i. central cooperative banks
Primary Agri credit societies
Primary urban banks
2. State Land development banks
central land development banks
Primary land development banks

Characteristic features of a developed money Market?

- Highly organised banking system
- Presence of central bank
- Availability of proper credit instrument
- Existence of sub-market
- Ample resources
- Existence of secondary market
- Demand and supply of fund

Summary

- The money market specializes in debt securities that mature in less than one year.
- Money market securities are very liquid, and are considered very safe. As a result, they offer a lower return than other securities.
- The easiest way for individuals to gain access to the money market is through a money market mutual fund.
- T-bills are short-term government securities that mature in one year or less from their issue date.
- T-bills are considered to be one of the safest investments.

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- A certificate of deposit (CD) is a time deposit with a bank.
- Annual percentage yield (APY) takes into account compound interest, annual percentage rate (APR) does not take compound interest
- CDs are safe, but the returns aren't great, and your money is tied up for the length of the CD.
- Commercial paper is an unsecured, short-term loan issued by a corporation. Returns are higher than T-bills because of the higher default risk.
- Banker's acceptance (BA) are negotiable time draft for financing transactions in goods.
- Repurchase agreement (repos) are a form of overnight borrowing backed by government securities.

Thank you