

PROJECT REPORT ON
“CARRY TRADE RETURNS USING CURRENCY FUTURES IN INDIAN
CONTEXT”

Submitted by

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Submitted To



VISVESVARAYA TECHNOLOGICAL UNIVERSITY, BELAGAVI

In partial fulfillment of the requirements for the award of the degree of

MASTER OF BUSINESS ADMINISTRATION

Under the guidance of

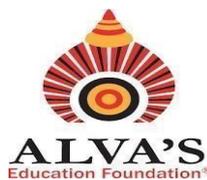
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With regards,

Rachana Shenoy



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CERTIFICATE

This is to certify that **Rachana Shenoy** bearing USN 4AL22BA069, is a bona-fide student of Master of Business Administration course of Alva's Institute of Engineering and Technology, Moodbidri for the batch 2022-2024, affiliated to Visvesvaraya Technological University, Belagavi. The Project report on "**Carry Trade Returns Using Currency Futures in Indian Context**" is prepared by her under the guidance of **Dr. Vishnu Prasanna K N**, Professor of Finance, in partial fulfilment of the requirements for the award of the degree of Master of Business Administration of Visvesvaraya Technological University, Belagavi Karnataka.

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DECLARATION

I, **Ms Rachana Shenoy (USN: 4AL22BA069)** hereby declare that the project report on **"Carry Trade Returns Using Currency Futures In Indian Context"** is prepared by me under the guidelines of Dr Vishnu Prasanna K N, Professor of Finance, PG Departments of Business Administration, Alva's Institute of Engineering and Technology, Mijar, Moodbidri.

I also declare that this project work is towards the partial fulfilment of the university regulations for degree of MASTER OF BUSINESS ADMINISTRATION by Visvesvaraya Technological University, Belgaum.

I have undergone a project for a period of 6 weeks. I further declare that this project is based on the original study undertaken by me and has not been submitted for the award of any degree/diploma from any other University/Institution

Date: 09/09/2024

Place: Moodbidri



signature of the student

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EXECUTIVE SUMMARY

The project paper examines the effectiveness of carry trade strategies within the Indian financial landscape, particularly through the utilization of currency derivatives. Carry trade involves borrowing in a currency with a low-interest rate and investing in one with a higher rate, aiming to profit from the interest rate differential (IRD). The paper emphasizes the unique position of India, with its historically higher interest rates compared to developed economies, making the Indian Rupee (INR) an attractive target for carry trades. However, the inherent volatility of the INR, driven by factors such as economic reforms, inflation, and geopolitical events, necessitates a robust risk management approach.

This study discusses the intricacies of carry trade strategies in the Indian context, specifically analyzing the returns from trades involving the Indian Rupee (INR) against major foreign currencies such as USD, GBP, EUR, and JPY. The primary focus is on evaluating the effectiveness of these strategies through the use of currency derivatives, particularly forward contracts, to hedge against exchange rate volatility.

Various statistical tools are used to analyse the data and get results. Descriptive analysis is used to verify the correctness of the data. Correlation and Covariance is the statistical tool used to verify the relationship and range of variation between the international gold and silver prices and foreign exchange rates. The Granger causality test is used to verify the causality between two variables.

The comparative analysis using Sharpe's ratio with traditional investment options such as Nifty and gold revealed that while carry trades offer higher potential returns, they also entail greater risks. This risk-return profile necessitates a balanced approach, integrating carry trades with other investment avenues to enhance overall portfolio performance.

In conclusion, the findings suggest that carry trades can be a lucrative strategy in the Indian market, provided that investors employ robust risk management techniques and remain vigilant to macroeconomic changes. The study recommends further exploration into advanced analytical methods, broader currency pair selection, and the integration of ESG factors to develop more sustainable and resilient carry trade strategies. This research contributes valuable insights into the dynamics of carry trade returns and offers practical guidance for investors aiming to optimize their investment strategies in the context of the Indian financial market.