

## A STUDY ON TRIANGULAR ARBITRAGE POSSIBILITIES IN DEVELOPED AND EMERGING MARKETS

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### ABSTRACT

Triangular Arbitrage reaches into the dynamics of arbitrage opportunities, particularly focusing on triangular arbitrage within currency markets. It commences by understanding how surfaces due to market inefficiencies, arbitrage or delayed information dissemination, compelling arbitrageurs to quickly execute trades using sophisticated algorithms or high-frequency trading strategies. Various financial markets, stocks, bonds, commodities, currencies, and derivatives, are susceptible to arbitrage, necessitating rapid decision-making and accurate execution to capitalize on fleeting discrepancies. The study investigates the bid-ask quotations, highlighting their significance in revealing buying and selling prices, bid-ask spreads, and their impact on market liquidity and trading strategies. Extensive literature review integrates studies showcasing the evolution of arbitrage tactics, the emergence of risk-free arbitrage opportunities, and methodologies to identify profit from currency rate fluctuations. The objectives is to explore and analyze arbitrage opportunities among major and emerging currencies, and to discern the profit variance between developed and emerging markets.

**Keywords:** Arbitrage, Currencies, Emerging markets, Financial markets, Fluctuations.

### 1. Introduction

Arbitrage opportunities commonly appear when there is imperfect market integration or when information is spread slowly throughout markets. Arbitrage traders or investors aim to reduce their exposure to risk by carrying out trades swiftly and effectively, frequently utilizing sophisticated trading algorithms or high-frequency trading tactics. Various financial markets, including those for stocks, bonds, commodities, currencies, and derivatives, are susceptible to arbitrage. It is crucial to remember that arbitrage opportunities frequently vanish rapidly because market forces swiftly rectify any pricing anomalies. In order to realize the potential benefits from arbitrage, rapid judgement and accurate execution are necessary. In the developed markets (forex) market, it is the practice of taking advantage of price discrepancies for currencies on several forex marketplaces to money. Currency exchange rate differences between two or more currency pairings or market place are used in forex arbitrage.

The principle behind triangular arbitrage is that there should be a mathematical relationship between the exchange rates of three different currencies. However, there may be brief price disparities due to market inefficiencies or delays in the communication of information.

Consider the following currency pairs: EUR/USD, GBP/USD, and EUR/GBP. The current currency rates are: EUR/USD = 1.10, GBP/USD = 1.25, and EUR/GBP = 0.88. The projected conversion rate for EUR/GBP should be 1.375 ( $1.10 * 1.25$ ), based on the mathematical relationship between these currency pairings ( $EUR/USD * GBP/USD = EUR/GBP$ ).

### 2. Buy and Sell Quotation- A Bird Eye View

  
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