

VOLUME 6, AUGUST 2020

STRICTLY STREET

The Official Newsletter of AAMDANI



TAKEAWAYS

- News Highlights
- Concept of Hedging
- Concept of Currency Swap
- Financial Advancements in Asia and Europe

NEWS HIGHLIGHTS

1. Flipkart acquired Walmart's India business and announced the launch of Flipkart Wholesale, a new digital marketplace that will help transform the kirana retail ecosystem in India. Flipkart Group had received a fund infusion of \$1.2 billion led by Walmart
2. Employees Provident Fund Organisation (EPFO) withdrawals touch Rs.30,000 crore in four months (April to July) amid Covid pandemic . EPFO rates are likely to fall further this year as it will be tough for it to maintain 8.5 per cent rate at a time RBI has been cutting policy rates.
3. After more than a decade and a half, India will end its financial year as a net exporter. But this current account surplus, an RBI report says, is due to greater fall in imports (Low oil prices and lower demands for gold and electronic goods) than that in exports.



CONCEPT OF HEDGING

A hedge is an investment that protects your finances from a risky situation. Hedging is done to minimize or offset the chance that your assets will lose value.

Working of Hedging Strategies

A common form of hedging is a derivative that derives their value from an underlying real asset, such as a stock. An option is the most commonly used derivative. It gives you the right to buy or sell a stock at a specified price within a window of time.

How does it work to protect you from risk? Let's say you bought stock. You thought the price would go up but wanted to protect against the loss if the price plummets. You'd hedge that risk with a put option. For a small fee, you'd buy the right to sell the stock at the same price. If it falls, you exercise your put and make back the money you just invested minus the fee.

Examples of Hedging Strategies:

1. **Diversification** is when an investor puts his finances into investments that don't move in a uniform direction. If one asset collapses, you don't lose everything.
2. **Arbitrage** involves buying a product and selling it immediately in another market for a higher; thus, making small but steady profits.
3. **Staying in Cash** strategy is as simple as it sounds. The investor keeps a part of his money in cash, hedging against potential losses in his investments.
4. **Average Down** strategy involves buying more units of a particular product even though the cost or selling price of the product has declined.



CONCEPT OF CURRENCY SWAP

In the swap arrangement, a country provides dollars to a foreign central bank, which, at the same time, provides the equivalent funds in its currency to the former, based on the market exchange rate at the time of the transaction.

The parties agree to swap back these quantities of their two currencies at a specified date in the future, which could be the next day or even two years later, using the same exchange rate as in the first transaction. In Sri Lanka's case, it's more than two years.

Benefits

1. These swap operations carry no exchange rate or other market risks, as transaction terms are set in advance. The absence of an exchange rate risk is the major benefit of such a facility.
2. This facility provides the country, which is getting the dollars, with the flexibility to use these reserves at any time in order to maintain an appropriate level of balance of payments or short-term liquidity

Add to your Vocab!

FICO score

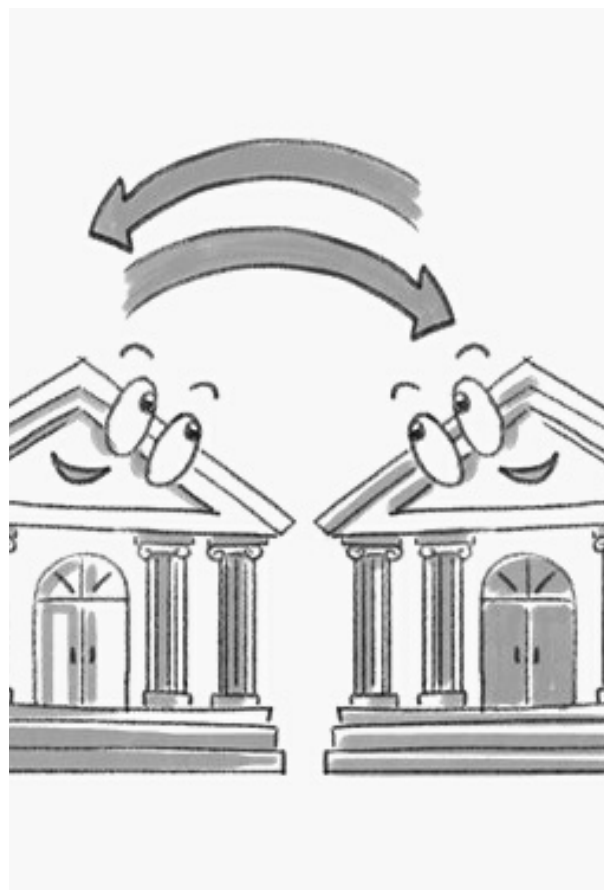
FICO is an acronym for Fair Isaac Corp., the company that came up with the methodology for calculating a credit score.

Currency Swap Agreement with Sri Lanka

The Reserve Bank of India (RBI) has signed an agreement for extending a \$400-million currency swap facility to Sri Lanka to boost the foreign reserves and ensure financial stability of the country, which is badly hit by the COVID-19 pandemic.

The currency swap arrangement will remain available till November 2022.

India already has a \$75 billion bilateral currency swap line with Japan, which is the second highest dollar reserve after China.



COMPARING FINANCIAL ADVANCEMENTS IN ASIA AND EUROPE DURING COVID-19 CRISIS

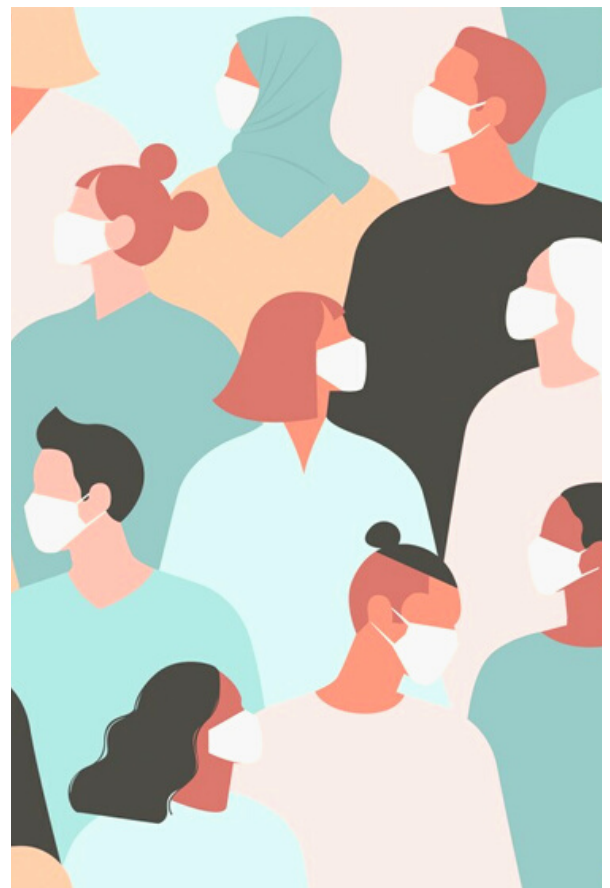
Looking at the ongoing situation of COVID-19 around the world, the entire country's economy is undergoing a tough time and as the economists say, the country is all set to land up in another GREAT DEPRESSION. From people losing their jobs to the banks running out of money, each and every country has its own economic problem to tell. People are not even able to fulfil their basic amenities, be it a proper food or a healthy lifestyle. They are not even able to provide themselves finances for the treatment of COVID-19.

Developments in Asia

- Low levels of government debt are being provided to employ counter-cyclical fiscal support which would help lift aggregate demand.
- Balance of trade is one of the most important factors which countries are trying to focus on by being independent in producing its own goods and services.
- The health sectors are trying to channelize the funding towards the poor and needy for the treatment of COVID-19. PPE kits are being provided to carry out the procedures safely.
- Achieving greener, low carbon and more efficient development is a policy of many governments at present.

Test Your Awareness

- Q1)** In terms of size what position does the Indian economy occupy in the world?
- Q2)** What is the upper limit on investment in Kisan Vikas Patra (KVP)?
- Q3)** What is the tagline for RBI?
- Q4)** The Indian rupee is a legal tender in two other countries. One is Nepal. The other is?
- Q5)** Which Five-Year Plan had adopted 'Removal of Poverty' as its foremost objective?



Development in Europe

- Significant public resources are directed to strengthen the healthcare sector and civil protection mechanisms to support affected workers in the economic sectors.
- Member states have so far committed to provide liquidity support for sectors facing disruptions and companies facing liquidity shortages like public guarantee schemes, deferred tax payments etc.
- The use of the existing EU Budget of around EUR 37 BILLION to fight the crisis and address the consequences of the COVID-19.
- The EU welcomes the release of capital buffers to overcome the financial pressures faced by every household and businesses.

Facts

1. The United States generates more than 20% of the world's GDP with about 4% of the world's population.
2. The total assets under supervision for JP Morgan (American multinational investment bank) is 2.2 trillion dollar more than the GDP of India.
3. One of the smallest economies to have its own U.S. listed ETF is Israel. The ETF trades under the ticker symbol EIS.
4. Flatbush National Bank of Brooklyn was the first bank to issue a credit card in 1946.

Wise Saying

"Money is a guarantee that we may have what we want in the future. Though we need nothing at the moment, it ensures the possibility of satisfying a new desire when it arises." - Aristotle

SOURCES

1. Corporatefinanceinstitute.com
2. India Today
3. The Economic Times
4. Mint

