Recent Trends in Money Market

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***Abstract*: The term money market is an umbrella that covers several market types, which vary according to the needs of the lenders and borrowers. money markets provide those with funds—banks, money managers, and retail investors—a means for safe, liquid, short-term investments, and they offer borrowers—banks, broker-dealers, hedge funds, and nonfinancial corporations—access to low-cost funds. In this paper we will study about recent trends in money market which are Low Level of Interest Rates, Price Formation and Transmission etc.**

I. INTRODUCTION

One of the sections of a financial market where securities and financial instruments with short-term maturities are traded is called the money market. Financial assets like treasury bills, certificates of deposits, commercial paper and bankers' acceptance are some of the short-term debt securities traded in the money market.

The money market consists of financial institutions and dealers in money or credit who wish to either borrow or lend. Participants borrow and lend for short periods, typically up to thirteen months. Money market trades in short-term financial instruments commonly called "paper". This contrasts with the capital market for longer-term funding, which is supplied by bonds and equity.

The money market has traditionally been defined as the market for short-term marketable debt instruments, such as commercial paper (CP) and treasury bills (TBs). It is much more than this. It embraces all short-term lending and borrowing, marketable and non-marketable, and includes the significant interbank market. It is in this market that interest rates have their genesis.

The Money market in India is the money market for short-term and long-term funds with maturity ranging from overnight to one year in India including financial instruments that are deemed to be close substitutes of money. Similar to developed economies the Indian money market is diversified and has evolved through many stages, from the conventional platform of treasury bills and call money to commercial paper, certificates of deposit, repos, forward rate agreements and most recently interest rate swaps. Money market, a set of institutions, conventions, and practices, the aim of which is to facilitate the lending and borrowing of money on a short-term basis. The money market is, therefore, different from the capital market, which is concerned with medium- and long-term credit.

II. OBJECTIVES

The Money market in India has very potential because as per population of India any company can come to India and invest. Need is only that government has good policy for companies to invest, when average income of common many increases one will start to invest in different ways.

III. METHODOLOGY

Functions of the money market

A. Financing industry

It helps to the growth of industries in two ways:

- They help industries secure short-term loans to meet their working capital requirements through the system of finance bills, commercial papers, etc.
- The short-term interest rates of the money market influence the long-term interest rates of the capital market. Thus, money market indirectly helps the industries through its link with and influence on long-term capital market.

B. finance trade

It helps in financing domestic and international trade.

C. Profitable investment

The Money Market enables the commercial banks to use their excess reserves in profitable investment. Commercial banks are owned by shareholders and function for the purpose of generating profits.

D. Self-sufficiency of commercial bank

Developed money markets help the commercial banks to become self-sufficient. Commercial banks help to mobilize savings of the people for productive purposes. They collect scattered and idle savings of people, pool them together and make fund available for productive purposes. Commercial banks provide short-term and medium-term loans for industries, trade and commerce at reasonable rates of interest. Easy loans attract the investors to invest in new enterprises. The banks act as a brigade between savers and investors.

E. Help to central bank

Money markets help central banks in two ways:

- Guide the central bank to adopt an appropriate banking policy,
- Secure quick and widespread influence on the sub-markets, thus facilitating effective policy implementation.

IV. TRENDS IN MONEY MARKET

A. An increase in secured funding

Secured funding provides an alternative source of term liquidity for the Group balance sheet. In the unsecured market, banks' cash borrowings decreased by 44%. And secured funding is increasing rapidly.

B. Changes in the repo market

The growing gap between where dealer-banks are willing to finance each other through the vast and shadowy "repo" market vs. what investors charge for such collateralized lending shows the negative feedback loop of heightened regulatory pressures on banks. In a repo, one party sells an asset (usually fixed-income securities) to another party at one price at the start of the transaction and commits to repurchase the fungible assets from the second party at a different price at a future date or (in the case of an open repo) on demand. If the seller defaults during the life of the repo, the buyer (as the new owner) can sell the asset to a third party to offset his loss. The asset therefore acts as collateral and mitigates the credit risk that the buyer has on the seller. As banks continue to repay the liquidity facilities provided by the ECB, they have returned to the repo market for funding. The survey reveals that the market share of euro-denominated repos has recovered from 57% in June 2012 to 66% in December last year. As a result, collateral remains in high demand, not only from central bank holdings (due to asset purchases) and capital requirements, but also from banks attempting to secure funding. Investors such as money-market mutual funds have had the option of parking their cash elsewhere at these times when dealers are shunning them, even as rates are lower.

C. Price Formation and Transmission

This is very popular trends in money market. Price formation is one of the key elements of market economy functioning. The price of a commodity or a service is formed as a result of numerous economic, political and social processes and this is true for traditional commodity relations as well as for financial markets. In business terms, price transmission means the process in which upstream prices affect downstream prices. Upstream prices should be thought of in terms of main inputs prices (for processing / manufacturing, etc.) or prices quoted on higher market levels (e.g. wholesale markets).

D. Low Level of Interest Rates: Currently many banks are offering Low Level of Interest Rates on home loan, car loan etc for attraction of people.

And there are some more other trends like end of Period Effects etc.

V. CONCLUSION

Above we know about trends in money market like Low Level of Interest Rates, Price Formation and Transmission, Changes in the repo market etc. Overall, we conclude that Money market help the commercial banks in many ways. One consequence of the financial crisis has been to focus attention on the differences among various segments of money markets, because some proved to be fragile, whereas others exhibited a good deal of resilience.

VI. SUGGESTIONS

Government should give proper facility to private companies to that they will more invest and government will get more tax. They should realise that government is there to benefit private companies.

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