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ACADEMY

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Money Market

ABSOLUTE FINANCE

Money Market

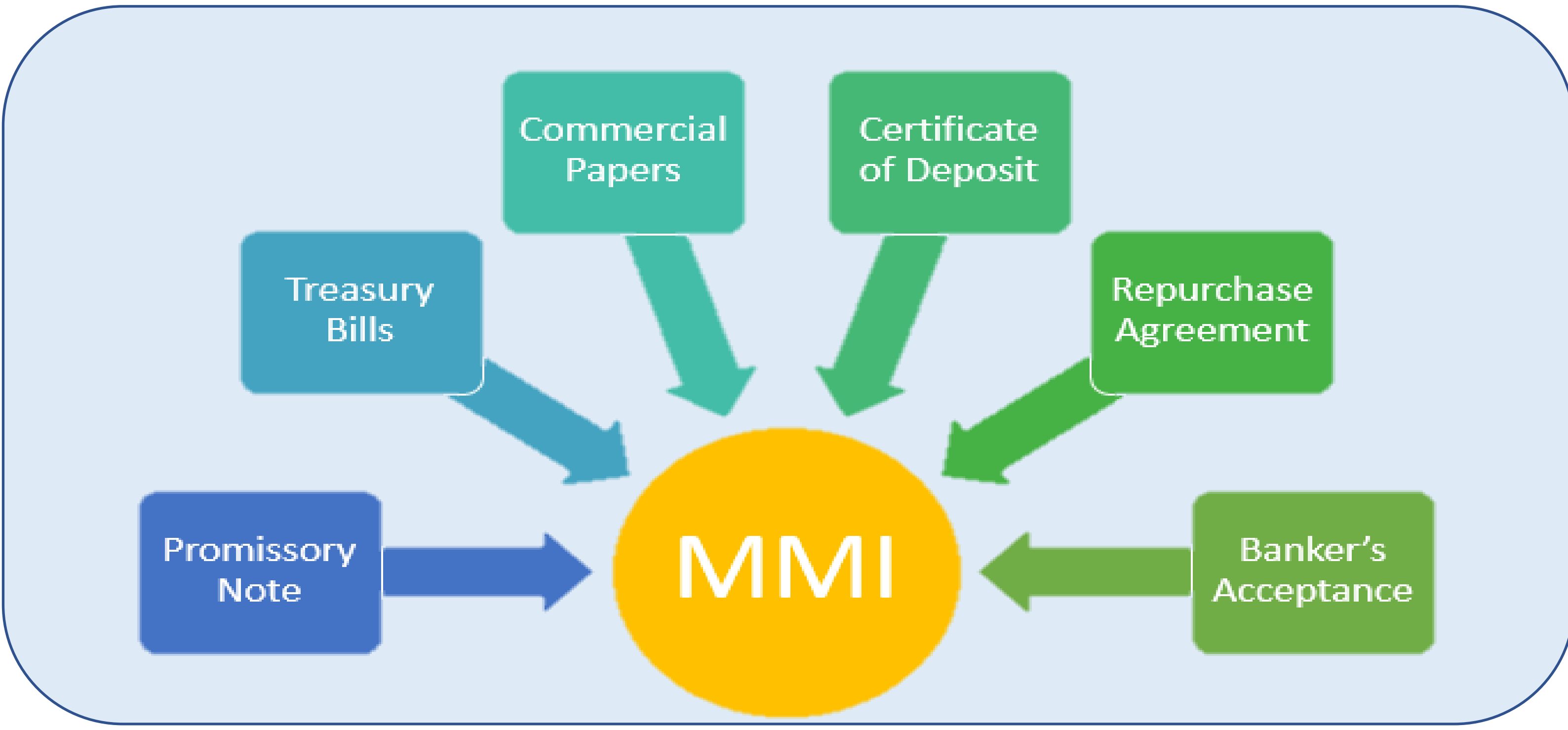
Money Market is a financial market where short-term financial assets having liquidity of one year or less are traded on stock exchanges. The securities or trading bills are highly liquid. Also, these facilitate the participant's short-term borrowing needs through trading bills. The participants in this financial market are usually banks, large institutional investors, and individual investors.

Development of Money Market

The Committee to Review the Working of the Monetary System (Chairman: Shri.Sukhamoy Chakravarty) was the first to make several recommendations in 1985 for the development of money market. As a follow-up, the RBI set up a Working Group on Money Market under the Chairmanship of Shri.N. Vaghul, which submitted its Report in 1987. Based on the recommendations, RBI initiated a number of measures in the 'eighties to widen and deepen the money market.

Shri Narayanan Vaghul

Report of the Working Group on The Money Market: [Report of the working group on money market (rbi.org.in)]



Promissory Note: A promissory note is one of the earliest type of bills. It is a financial instrument with a written promise by one party, to pay to another party, a definite sum of money by demand or at a specified future date, although it falls in due for payment after 90 days within three days of grace.

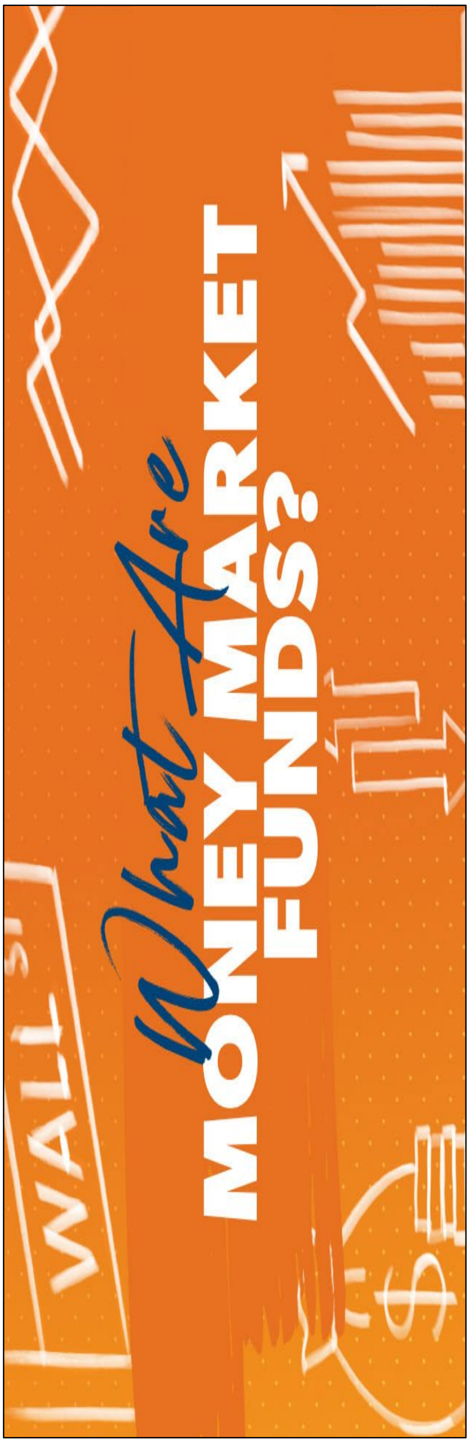
Treasury Bills: The Treasury bills are issued by the Central Government and known to be one of the safest money market instruments available. Besides, they carry zero risk, so the returns are not attractive. Also, they come with different maturity periods like 1 year, 6 months or 3 months and are also circulated by primary and secondary markets. The central government issues them at a lesser price than their face-value. There are three types of treasury bills issued by the Government of India currently that is through auctions which are 91-day, 182-day and 364-day treasury bills.

Commercial Papers: Commercial papers can be compared to an unsecured short-term promissory note which is issued by top rated companies with a purpose of raising capital to meet requirements directly from the market. They usually have a fixed maturity period which can range anywhere from 1 day up to 270 days. They offer higher returns as compared to treasury bills. They are automatically not as secure in comparison. Also, Commercial papers are traded actively in secondary market.

Certificate of Deposit: This functions as a deposit receipt for money which is deposited with a financial organization or bank. The Certificate of Deposit is different from a Fixed Deposit receipt in two ways. They are issued only when the sum of amount is Huge and is negotiable.

Repurchase Agreement: Repos are also known as Reverse Repo or as Repo. They are loans of short duration which are agreed by buyers and sellers for the purpose of selling and repurchasing.

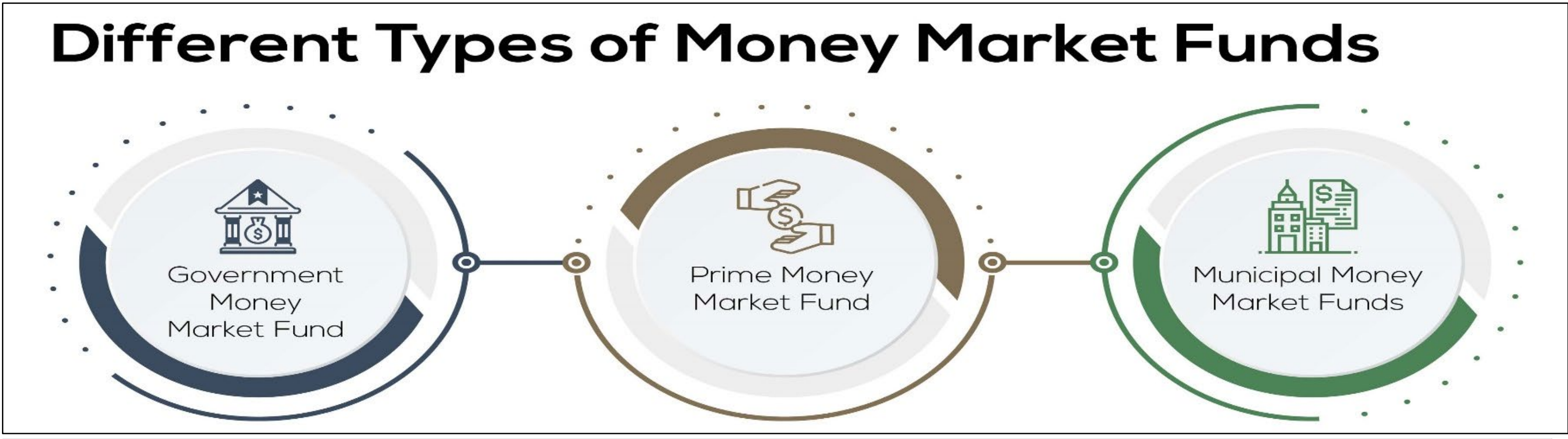
Banker's Acceptance: A Banker's Acceptance is a document that promises future payment which is guaranteed by a commercial bank. Also, it is used in money market funds and will specify the details of repayment like the date of repayment, amount to be paid, and details of the individual to which the repayment is due.



A money market fund is a kind of mutual fund that invests in highly liquid, near-term instruments. These instruments include cash, cash equivalent securities, and high-credit-rating, debt-based securities with a short-term maturity. Money market funds are intended to offer investors high liquidity with a very low level of risk. Money market funds are also called money market mutual funds.

What is the importance of money markets in the economy?

The money market plays a very significant role in the economy. It allows a variety of participants to raise funds. It offers liquidity to both the investors and the borrowers. And hence maintaining a balance between the demand and supply for money. Thus, facilitating the development and growth of the economy.



Government Money Market Fund:

The US government defines government money market funds as "funds that invest 99.5% or more of their total assets in liquid investments (e.g., cash, government securities, repurchase agreements fully collateralized with government securities)."

Such funds include US Treasuries and repurchase agreements collateralized by US Treasury securities. Government money market funds use special pricing and valuations when calculating the share price to keep their net asset value (NAV) at $1 per share. NAV is the per-share value of a fund's assets minus its liabilities.

Prime Money Market Fund:

Prime money market funds invest in floating-rate commercial paper. Floating rate (also called variable rate) refers to an interest rate that rises or falls either with the market rate or an index rate. Prime money market funds invest in variable rate debt and commercial paper of corporations, government-sponsored enterprises, and government agencies.

Municipal Money Market Funds:

A municipal money market fund invests in municipal bonds. These funds are typically free from federal, state, and alternative minimum taxes. Like government funds, they also trade at a stable NAV of $1 per share.

Specific Money Market Funds:

Many companies offer money market funds. Two of most popular choices include the Vanguard Prime Money Market Fund and Fidelity Money Market Fund.

Vanguard Prime Money Market Fund

The Vanguard Prime Money Market Fund (VMMXX) is a taxable money market fund that invests in highly-liquid securities with short-term securities. This includes US Treasury bills and cash. The fund requires an initial $3,000 investment and has a fixed-price share fund with a NAV of $1 per share.

Fidelity Money Market Fund

The Fidelity Money Market Fund (SPRXX) invests in US dollar-denominated money market securities of domestic and foreign issuers, US government securities, and repurchase agreements. It is a taxable fund. Compared to government funds, prime funds like the Fidelity Money Market Fund perform better over time.

Best Money Market Mutual Funds for 2020

Mutual Fund Scheme	VRO Star Rating	Exp Ratio	AUM in Rs Crores	6 Months Returns	(Annualised returns)			
					1yr	3yr	5yr	10 Yrs
L&T Money Market Fund	4.00	0.76%	888	5.1%	8.0%	7.6%	8.1%	8.3%
Franklin India Savings Fund	5.00	0.26%	4,741	3.4%	8.2%	7.6%	7.8%	8.2%
Aditya Birla Sun Life Money Manager Fund	4.00	0.28%	12,504	3.4%	7.9%	7.6%	7.7%	8.2%
Nippon India Money Market Fund	4.00	0.24%	4,540	3.4%	7.8%	7.5%	7.6%	8.1%
Kotak Money Market Fund	4.00	0.26%	10,017	3.3%	7.7%	7.4%	7.6%	8.1%
HDFC Money Market Fund	3.00	0.35%	9,441	3.3%	7.8%	7.3%	7.5%	8.0%
UTI Money Market Fund	4.00	0.27%	8,013	3.3%	7.7%	7.5%	7.6%	8.1%

Data: Value Research as on 23-Feb-2020 and returns rounded off

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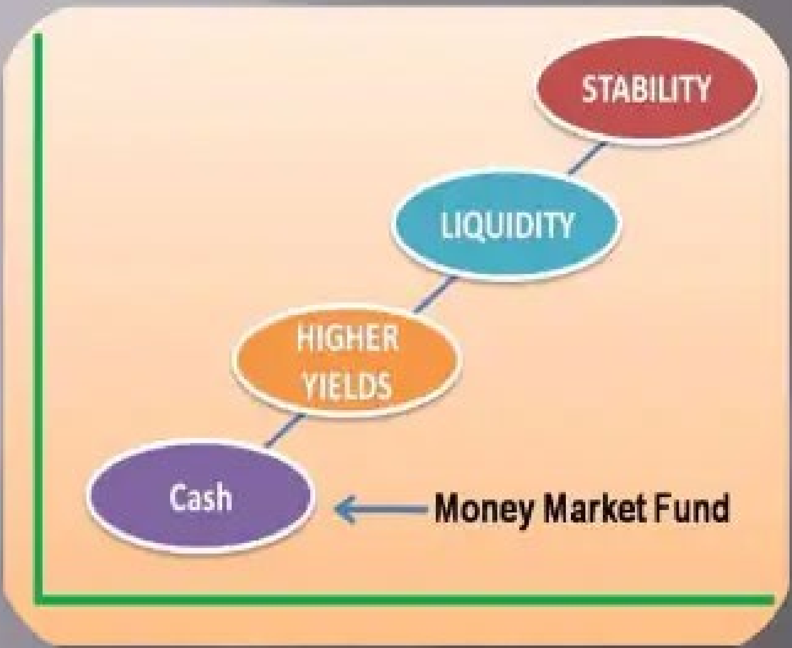
Money Market Objectives:

1. Providing borrowers such as individual investors, government, etc. with short-term funds at a reasonable price. Lenders will also have the advantage of liquidity as the securities in the money market are short-term.
2. It also enables lenders to turn their idle funds into an effective investment. In this way, both the lender and borrower are at a benefit.
3. RBI regulates the money market. Therefore, in turn, helps to regulate the level of liquidity in the economy.
4. Since most organizations are short on their working capital requirements. The money market helps such organizations to have the necessary funds to meet their working capital requirements.
5. It is an important source of finance for the government sector for both national and international trade. And hence, provides an opportunity for the banks to park their surplus funds.

Importance of the Money Market:

1. It maintains a balance between the supply of and demand for the monetary transactions done in the market within a period of 6 months to one year.
2. It enables funds for businesses to grow and hence is responsible for the growth and development of the economy.
3. It aids in the implementation of monetary policies.
4. It helps develop trade and industry in the country. Through various money market instruments, it finances working capital requirements. It helps develop the trade in and out of the country.
5. The short-term interest rates influence long term interest rates. The money market mobilizes the resources to the capital markets by way of interest rate control.
6. It helps in the functioning of the banks. It sets the cash reserve ratio and statutory liquid ratio for the banks. It also engages their surplus funds towards short term assets to maintain money supply in the market.
7. The current money market conditions are the result of previous monetary policies. Hence it acts as a guide for devising new policies regarding short term money supply.

Why You Should Invest in Money Market Funds!



In the wary world of the market, money market funds are a popular way to invest your money in a relatively safe way usually for short term. Used by both individuals and businesses, money market accounts are used as a short-term cash management tool. For the most part, money market funds are designed as a short-term investment (less than one year); many accounts mature in 30-90 days. There are some money market accounts designed to save money that is not for immediate use, but not for long-term accounts, such as retirement accounts. Richard Cayne Meyer can help consult on an account for your needs.

Banks could lose credit demand from companies to Money Market

The Rate Card

THREE-MONTH CD RATES – FEB, 2021 MATURITY (%)

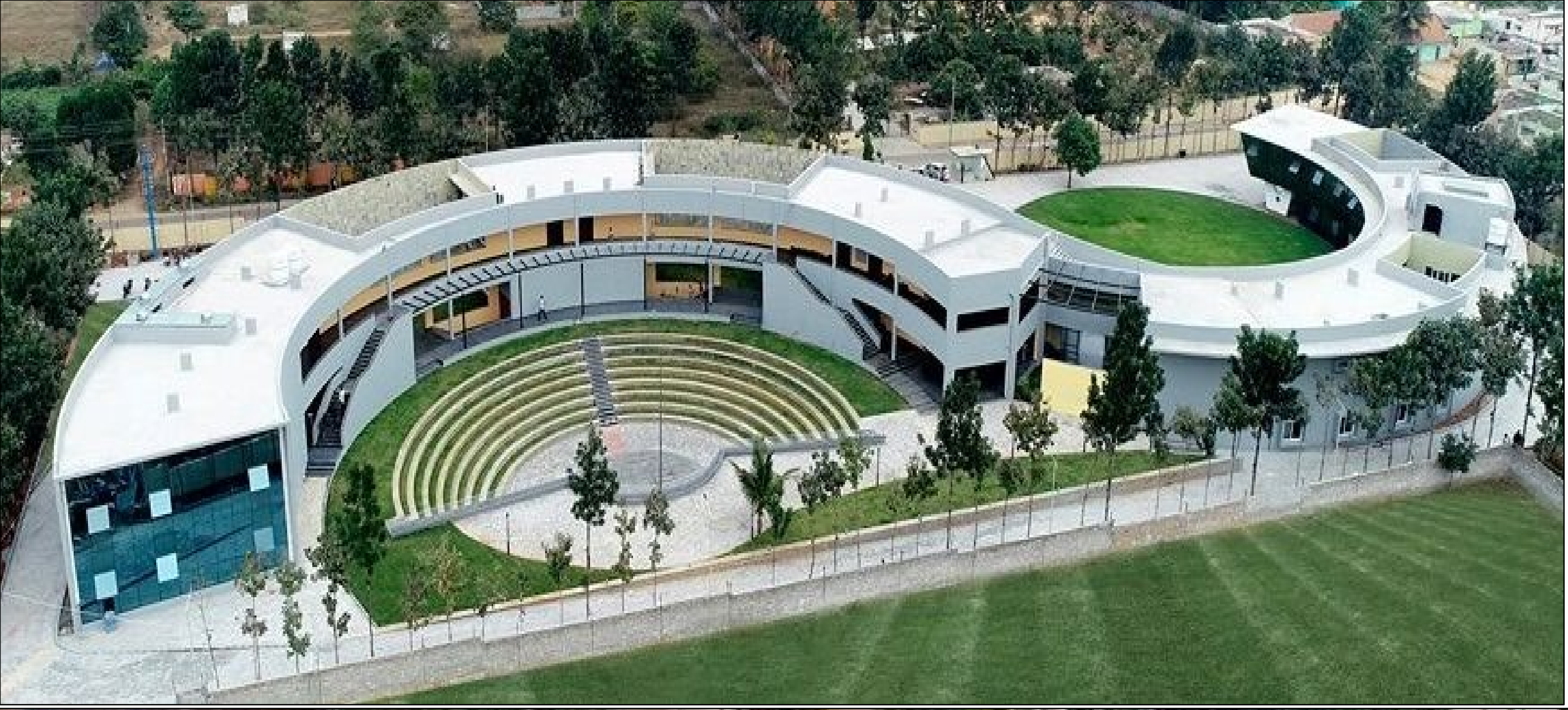
Godrej Industries 3.28-3.30	HDFC 3.26
Aditya Birla Finance 3.31	Hero FinCorp 3.35

Source: Market

	CORPORATE CP (45-90 DAYS)	NBFC CP (45-90 DAYS)	SBI MCLR 3M	6M
May-20	5.60	5.30	7.00	7.20
Jun-20	5.10	5.30	6.80	7.00
Jul-20	5.47	4.50	6.65	6.95
Aug-20	4.53	3.85	6.65	6.95
Sep-20	4.50	4.00	6.65	6.95
Oct-20	4.30	4.00	6.65	6.65

Source: India Ratings

Detail Report: [money market: Banks could lose credit demand from companies to money market - The Economic Times (indiatimes.com)]



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