

THE MONEY MARKET



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The Money Market

– By Prof. Simply Simple



THE MONEY MARKET

- ❑ **The Money Market is a place for large institutions and the government – to manage their short term cash needs**
- ❑ **The money market is a subsection of the fixed income securities market**
- ❑ **Though we often confuse the words ‘fixed income’ with bonds, a bond is just another type of fixed income security**
- ❑ **The difference between money market and bond market is that money market specializes in very short term debt securities (maturing in less than one year)**
- ❑ **Money market investments are also called cash investments due to their short term maturities**



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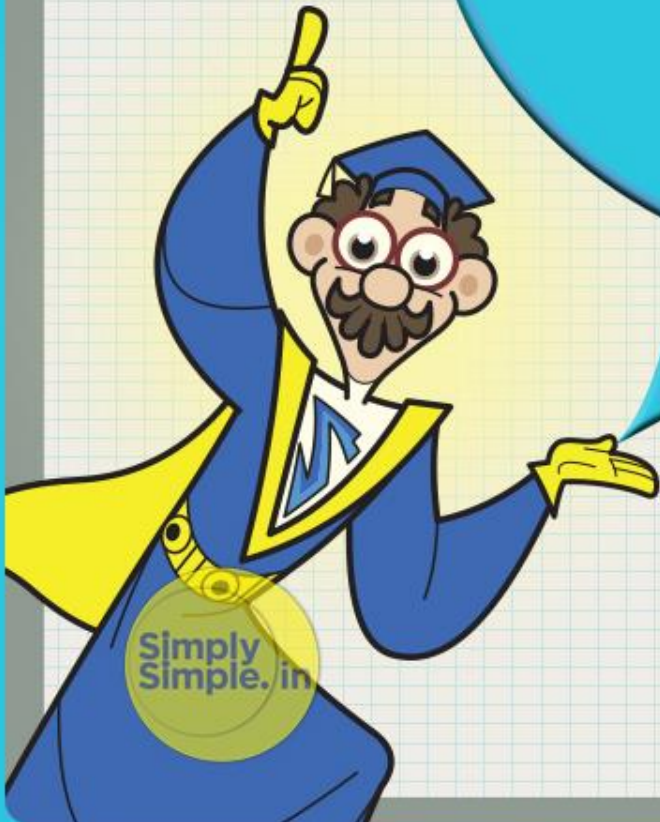
Money market...what is it?

- ❑ Money market securities are essentially issued by governments, financial institutions and large corporations
- ❑ These instruments are very liquid (can be disposed for cash quickly, if required) and very safe
- ❑ Because, they are very conservative and less risky, they offer much lower returns than most other securities
- ❑ The main difference between money market and the stock market is that most money market instruments trade in very high denominations. So, individual retail investors' participation is limited.
- ❑ So, retail investors access this market through Money Market Mutual Funds



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Let us now see the various types of
Money Market Instruments



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Treasury Bills (T-Bills)

- T-Bills is a way for governments to raise money from the public
- T-Bills are short term securities that mature in 1 year or less from their issue date. They are usually issued with 3 months, 6 months and 9 months maturities
- They are sold to the public by the government of a country at a discount to face value.
- On maturity, the investor is paid the face value; so that he earns interest by way of a difference in purchase price and face value
- T-Bills are usually considered the safest investment in the world because of government backing



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Certificate of Deposit (CD)

- A CD is a time deposit with a bank
- Like most time deposits, funds cannot be withdrawn before maturity without paying a penalty
- CDs have specific maturity dates, interest rates and can be issued in any denomination
- The main advantage of CDs is their safety
- You will earn more than a savings account and you won't be at the mercy of the stock market
- But the disadvantage is that the returns are paltry compared to many other instruments



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Commercial Paper (CP)

- ❑ CP is a short-term unsecured loan issued by a corporation typically for financing day-to-day operations
- ❑ Corporate borrowers wishing to avoid the laborious task of applying for a bank loan resort to this avenue of financing
- ❑ CP is a very safe investment because the financial situation of a company can easily be predicted over a few months
- ❑ Only companies with high credit ratings issue CPs



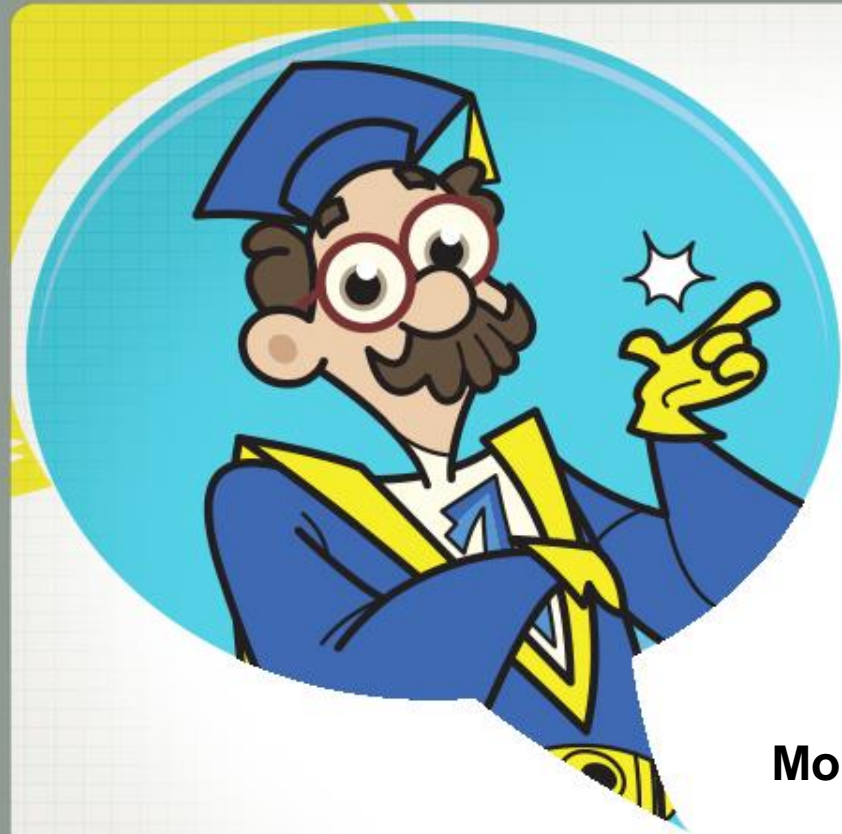
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Repurchase Agreements (Repos)

- ❑ Repo is a form of overnight borrowing and is used by those who deal in government securities
- ❑ A holder of government securities usually sells the securities to a lender and agrees to buy them back (repurchase) at an agreed future date at an agreed price
- ❑ They are usually very short term repurchase agreements, from overnight to 30 days or more
- ❑ The short term maturity and government backing usually mean that repos provide lenders with extremely low risk. Repos are safe collateral for loans



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Money Market Instruments thus provide the level of safety that even ambitious investors look out for, during stock market volatilities



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To sum it up...

- ❑ **Money Market specializes in debt securities that mature in less than one year**
- ❑ **These securities are very liquid and very safe. As a result, they offer lower level of return than other securities**
- ❑ **The easiest route for individuals to this market is through money market mutual funds**



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Hope you have now understood
the concept of Money Market



Thinking of Investment

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