GSJ: Volume 11, Issue 12, December 2023, Online: ISSN 2320-9186

www.globalscientificjournal.com

AN OVERVIEW OF ACTIVITIES OF THE INTERNATIONAL MONEY MARKETS WTH REFERENCES DRAWN FROM DEVELOPED AND EMERGING ECONOMIES.

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Abstract

This study investigates the activities of the international money market with references drawn from developed and emerging economies. The study adopted basic computation on both the yield on money market investment, as well as Eurocurrency interest rates and exchange rates. Emphasis was placed on the Keynesian view which concentrates on macroeconomic theory. This indicates that money has real repercussions both in the long term and short-term monetary policies which are likely to improve on the economy. The study recommended that government as well as the monetary managers at the helm of affairs should adopt policies and measures that can facilitate the improvement and strengthened the development of money market activities in the underlying regions.

Keywords: Money Markets, investments, securities, exchange rates, interest rates, monetary policy

1.Introduction

The last fifty-five years have seen a fast growth within international trade, globalization of product markets as well as an upward advancement towards economic and financial integration. Also, financial instruments seem to have multiplied and become increasingly sophisticated. Money markets in other parts of the globe predominantly US, UK, Japan and Australia seem to be efficient because it facilitates a fast inflow of huge sums of capital from one country to another.

Most money market transactions are negotiated by telephone. A firm anxious to buy a certain marketable security is likely to call a bank that will try to purchase the security by contacting a bank or the firm may also go directly to a government security. The major actors within the money market are individuals, businesses,governments,and financial institutions. Individuals participate as purchasers, as well as sellers of money market instruments. Their purchasers are somewhat constrained because of huge denominations involved in trading. The international equivalent of the domestic money market is known as the Eurocurrency market. This is a market for short-term bank deposits denominated in U.S dollars or other easily convertible currencies.Eurocurrency deposits emerge when a corporation or individual makes a deposit in a bank in a currency other than the local currency of the country where the bank is located.

2.Literature Review

The money market is very significant in an economy in that it ensures mobilization in terms of financial resources for investment.Ofoedu et al (2022) argues that money market makes it possible for short-term trading in debt instrument to cope with ever- needing huge pool of wider dimension of utilization of funds. For instance, governments, banks and similar institutions.Rigkova (2022) pointed out that commercial papers, notably seen as the perfect channel of pushing forward funds within the short-term rate of interest. They emphasized that commercial paper was the biggest U.S. government short-term debt instrument that witnessed the starting episode of 2007.Peprah et al (2019) echoed that money market instrument, for instance treasury bills and treasury certificate feature prominently as short-term government debt instrument.

A sound development of the money market is given backing to the bond market through the emergence of liquidity of bonds. Aggregate volume with respect to the Treasury repo market is estimated to $2 trillion. Copeland et al (2014) and Baklanova et al (2016) give an approximation of volumes in vary repo market segment. It is significant to point out that money market ought to put into place strategies for policies which offer incentives for banks to seriously manage in terms of shouldering shortage of surplus reserve money, move central bank monetary policy implementations and resource the government with sufficient abilities for cash management. Keynes was in doubt concerning the long -term impact of monetary policy when the economy is in a negative liquidity trap due to volatility in the market (Twinburyo and Odhinmbo 2018).Modern Monetary theory seemed not to interpret the interest rate behaviour, and the links of money supply as well as money demand with economic activities, the monetary is limited with a theoretical base geared towards fiscal policy (Palley 2015).The truth about the matter is that Monetary theories have come under serious criticism on the argument being raised of the velocity in terms of market as well as the ups and downs within the function of money demand in an economy (White 2013).Also, monetary models are the lack of money exchange rate,and insufficient treatment within markets (Arestis and Sawyer 2008).

3.0 Empirical Methodology

The aim of this study is to offer an overview of the activities of money market in both developed and emerging economies.

3.1 Data Sources

The data sources were mainly drawn from finance textbooks, the web, U.S Securities and Exchange Commission, Bank for International Settlements Quarterly Review etc.

3.2 Yield on Money Market Investment

A growing proportion of money market investment are genuinely discount securities. The interpretation is that it does not offer pay interest. The return comprises variation between the amount you pay and the amount you receive at maturity. The study revealed that interest rates in respect of money market investments are frequently quoted on a discount fundamental. An example unfolds that a six- month bills is issued at a discount of 5percent.Thus, the price of a six- month bill is 100 –(6/12) x 5=$97.50.Hence,from every $97.5 that you invest today, you get $100 for the six months period. They investigated that for the return over six months stood at 2.5/97.5 = 2.56 percent.Furthermore, it was revealed that it was equivalent to an annual yield of 5.12 % simple interest or 5.19%.

4.0 Empirical Results and Discussion

Exchange Rates and Eurocurrency Interest Rates

Table 1

Interest Rate/Exchange Rate	Maturity	Eurodollar Interest Rates		Euro-Pound Interest Rates
	1 month	1.900%		3.850%
	3 month	1.920%		4.040%
	6 month	2.200%		4.260%
	12 month	2.500%		4.650%
Exchange rates:				
Spot rate			$1.4178/E	
Forward rates	1 month		$1.4155/E	
	3 month		$1.4104/E	
	6 month		$1.4035/E	
	12 month		$1.3887/E	

$$90 - Day\ forward\ rate = Spot \times \frac{1 + \left(i_{90}^{\$} \times \frac{90}{360}\right)}{1 + \left(i_{90}^{£} \times \frac{90}{360}\right)}$$

Eurocurrency interest rates perform a significant function within the foreign exchange markets. It is the interest rates applied in the computation, for instance, the forward rate. For example, to worked out the 90-day forward rate for the U.S. Dollar-British pound cross rate, the spot exchange rate is multiplied by the ratio in terms of the two Eurocurrency interest rates-the Eurodollar as well as the euro pound rates. As table 1(1.92 percent for the dollar and 4.04 percent for the pound) the table demonstrates the 90-day forward exchange is:

$$90 - Day\ forward\ rate = \$1.4178/£ \times \frac{1 + \left(.0192 \times \frac{90}{360}\right)}{1 + \left(.0404 \times \frac{90}{360}\right)} = \$1.4104/£$$

The study revealed that the forward rate in terms of 1.4104/£ seemed to be a weaker rate for the British pound as compared to the currency rate. The study revealed that one British pound will yield $1.417 within the spot market, but only selling forward as a discount, while the dollar would be selling at a premium for the reason being that its value seemed to be stronger at the 90 day forward rate.

The study revealed implication in that the eurocurrencies is likely to damage a country's efforts to design a sound monetary policy. There would be unstable movements of balances within a country's banking environment that makes it impossible and cumbersome for central bank's ability to cope with the monetary goal.

Figure 1

FLOW OF FUNDS

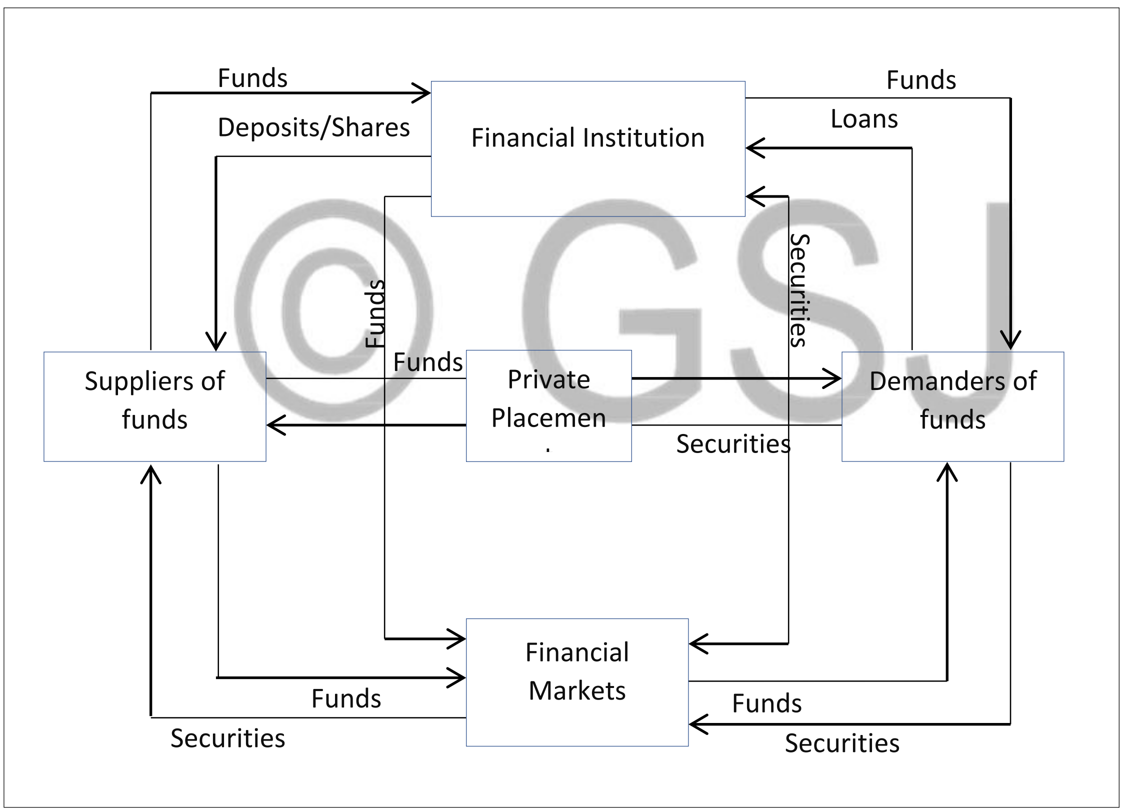

Figure 1 shows the overall relationship between institutions and markets in the transmission of funds through and between financial institutions as well as markets, private placement transactions as demonstrated. The study revealed individuals, businesses and governments which supply and demand funds are likely to be domestic or foreign.

Table 2

International Money Market Instruments-all issuers

Amount outstanding in billions of dollars

Countries	**Dec.2014**	**May 2015**	**June 2015**
Developed Countries			
Australia	26.5	24.8	22.8
Belgium	8.2	12.4	10.9
Canada	12.5	12.1	14.2
France	87.1	81.4	78.2
Germany	156.6	170.8	163.6
Italy	11.5	8.0	8.7
Japan	55.0	44.8	46.2
Switzerland	30.8	29.9	30.3
UK	59.9	59.3	58.6
USA	44.1	50.7	51.4
Offshore Centres			
Hong Kong	6.1	7.2	5.5
Singapore	17.6	14.1	15.6
Asian Pacific			
China	81.6	80.0	76.1
India	0.3	0.1	0.2
Korea	10.3	10.1	10.7
Malaysia	0.0	0.0	0.1

Source:(BIS Quarterly Review,September 2015)

Table 2 shows international money market instruments which took place December 2014 and June 2015.Developed country like Germany outstanding instruments stood at $156.6 and $163.6 as the highest money market development. The table witnessed Asian-Pacific country like China performing better in that same period of $86.6 and $76.1 respectively. China seemed to have the best developed money market in the whole of Asia, closely second to Japan. The table revealed a sharp contrast least performing countries such as off-centres Hong Kong which outstanding reserve during the period above stood at 6.1,7.2 and 5.5 and that of Malaysia recording 0.0,0.0,0.1 respectively. Findings from the data revealed that the growth of international money market between 2014 and 2015.In addition, It demonstrates that such international instrument is growing most rapidly in developed countries such as Germany, Japan, UK, USA,France and Belgium and with sharp contrast to Off-centres and Asian-Pacific

Countries such as Hong Kong, Singapore,India,Korea,Malaysia which is under developed as the table shows.

Table 3

Countries	Gross Issuance	
Developed	Q_1 2015	Q_2 2015
Australia	14.2	8.4
Belgium	6.9	3.6
Canada	6.3	7.4
France	50.9	46.3
Germany	116.0	87.4
Italy	4.4	4.7
Japan	39.3	38.4
Switzerland	5.7	17.8
UK	33.7	31.1
USA	33.7	32.8
Offshore		
Hong Kong	3.9	0.8
Singapore	5.9	10.4
Asian Pacific		
China	39.4	27.6
India	0.0	0.1
Korea	2.7	4.6
Malaysia	-	0.1

Source (BIS Quarterly Review,September 2015)

Table 3 demonstrates the extent to which gross issuance of international money market instrument has grown in volumes in most developed countries and least in offshore and Asian Pacific. The study revealed that developed countries had a well-developed money market as shown in the table. The total gross issuance in the first quarter stood for $311.1 as compared to Offshsore $9.8 and Asian Pacific $42.1 respectively. The paper shed light on the second quarter gross issuance for developed countries ($278.3),Offshore($10.2) and Asian Pacific($32.4) respectively. It can be concluded that the industrialized countries have a well-developed money market as the study reveals.

Table 4

Countries	Net Issues				
	2013	2014	Q4 2014	Q_1 2015	Q_2 2015

Australia	24	-40	-23	-10	-26
Belgium	3.1	36	0.6	5.1	-2.0
Canada	8.3	-1-4	-3.0	-0.2	1.9
France	-28	5.2	9.8	-1.5	-5.1
Germany	- 3.4	25.6	-2.5	22.6	-10.9
Italy	-8.7	- 1.9	-22	-2.4	0.4
Japan	6.3	6.5	1.5	-1.4	0.2
Switzerland	5.7	17.8	1.0	1.8	-0.6
UK	-6.1	4.6	1.2	3.2	-2.6
USA	14.7	12.7	2.8	9.9	-0.9
Offshore					
Hong Kong	2.3	1.8	-0.3	1.2	-1.8
Singapore	12.9	-0.8	-1.6	-3.0	1.0
Asian Pacific					
China	27.8	30.2	-3.4	0.0	-4.5
India	-0.7	-0.4	-0.2	-0.2	-0.1
Korea	2.8	1.1	1.3	0.1	0.4
Malaysia	-0.2	-0.2	-0.0	-	0.1

Source (BIS Quarterly Review, September 2015)

Table 4 shows net issues of international money market instruments which occur within developed countries and that of offshore and Asian Pacific between 2013 to second quarter of 2015.In particularly developed countries such as: Western Europe, UK, USA and in parts of Australia, Japan and China. In addition, it shows that such market is growing rapidly with money market instruments. Study reveals that these markets act as a catalyst and as pathway for the carrying out as well as flow of monetary policy and serve as trading marketplace. For instance, short term instruments which facilitate the overall term structure of interest rates. In addition, the study reveals that money market in these countries perform a significant role within the credit evaluation mechanism and greatly in value payment systems in a situation where trade settlement are carried out.

Table 5: Prime Holdings of Bank-Related Securities by Country ($ Billions)

Country	2022-01	Change	2021-12
Canada	96.4	170	113.4
France	70.0	204	49.6

Japan	64.8	67	71.3
US	49.8	3.7	46.1
Germany	33.8	18.7	15.1
UK	28.4	9.0	19.4
Australia/NZ	27.7	4.9	32.6
Netherlands	25.9	113.0	12.9
Switzerland	11.5	0.6	12.1
Asian Pacific	111.3	9.4	120.7

Source: (US Securities & Exchange Commission on Money Markets Statistics,2022)

Table 5 shows the extent to which Prime Holdings of Bank-related securities have increased within a year from 2021 to 2022.The paper revealed Canada recording $96.4 billion and 113.4 with a change of 17.0 as compared to Switzerland showing $11.5 billion and 12.1 indicating a change of 13.0. Findings from this study revealed a difference between the highest change, which is Canada of 17.0 and the lowest of Switzerland 0.6 arriving at 16.4 billion dollars of prime holdings of bank-related securities as a better performance indicator. The study examined that in response to the growth in bank-related securities, there has been an increase in terms of internationally-oriented financial products such as securities. The study, among others, revealed the buying of foreign securities directly by individuals in the absence of support. For example, mutual funds have grown so fast in current periods and this had paved the way to shift international departments of a growing proportion of security houses into key profit-growth centres.

5.0 Conclusion

This paper has provided insights on the various activities of the money market in both developed and emerging economies. Using the yield on money market investment, it was observed that interest rates 0f money market seemed to be constantly quoted on discount fundamentals. The study has also shown there is a negative relationship, in that for forward exchange rate, there seemed to a weaker rate for the British pound as compared to currency rates. Also, we can establish a positive relationship that dollar would be selling at a premium because its value would be stronger at the 90 days forward rate.

The study investigates the general relationship between institutions and markets in the flow of funds. The foregoing empirical findings on the exchange rates have significant implications. First, within the domain of the primary market issue of concern in this study, eurocurrencies are likely to cause havoc in a country. The study revealed the relatively high value placed on money market currently experienced in most developed and emerging economies. Using the period 2013 to 2015 and 2021 to 2022, a rising proportion of money market instruments and Prime Holdings of Bank-Related Securities in billions of dollars in developed economies are better organized, efficient and well-sound than the emerging countries. In concluding the study, we are of the view that the empirical evidence obtained offer useful Insights in the assessments of the activities on the international money market environment.

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