FOREX CLASS 7 PART 2

CLASS WORK COVERAGE

To streamline our learning process, I've categorized the questions we'll tackle in class into four distinct groups:

1. ***Classic:*** *These questions are exactly as presented in your book, providing a familiar foundation.*
2. ***Transformed:*** *Here, we've converted book questions into multiple-choice format to enhance your analytical skills.*
3. ***Adapted:*** *These are similar to book questions but with altered numbers or names, presented as multiple-choice questions for varied practice.*
4. ***Original:*** *These are entirely new questions not found in your book, designed to challenge and expand your understanding.*

This structure will help us navigate through a range of problems, ensuring a comprehensive grasp of the material. Looking forward to our next session!

Q. No	Type	Book	Page No.	Q No.
1	***Classic***	HW Q BOOK	3	4
2	***Classic***	CW Q BOOK	9	27
Case Study 1	***Adapted***	CW Q BOOK	9	26

Question 1:

You have following quotes from Bank A and Bank B:

	Bank A	Bank B
SPOT	USD/CHF 1.4650/55	USD/CHF 1.4653/60
3 months	5/10	
6 months	10/15	
SPOT	GBP/USD 1.7645/60	GBP/USD 1.7640/50
3 months	25/20	
6 months	35/25	

Calculate:

i. How much minimum CHF amount you have to pay for 1 Million GBP spot?

ii. Considering the quotes from Bank A only, for GBP/CHF what are the Implied Swap points for Spot over 3 months?

Answer:

i. To Buy 1 Million GBP Spot against CHF

1. First to Buy USD against CHF at the cheaper rate i.e. from Bank A. 1 USD = CHF 1.4655
2. Then to Buy GBP against USD at a cheaper rate i.e. from Bank B 1 GBP=USD 1.7650

By applying chain rule buying rate would be

1 GBP = 1.7650 × 1.4655 CHF

1 GBP = CHF 2.5866

Amount payable CHF 2.5866 Million or CHF 25,86,600

ii. Spot rate Bid rate GBP 1 = CHF 1.4650 × 1.7645 = CHF 2.5850

Offer rate GBP 1 = CHF 1.4655 × 1.7660 = CHF 2.5881

GBP / USD 3 months swap points are at discount

Outright 3 Months forward rate GBP 1 = USD 1.7620 / 1.7640

USD / CHF 3 months swap points are at premium

Outright 3 Months forward rate USD 1 = CHF 1.4655 / 1.4665

Hence

Outright 3 Months forward rate GBP 1 = CHF 2.5822 / 2.5869

Spot rate GBP 1 = CHF 2.5850 / 2.5881

Therefore 3 month swap points are at discount of 28/12.

Question 2:

An importer customer of your bank wishes to book a forward contract with your bank on 3rd September for sale to him of SGD 5,00,000 to be delivered on 30th October.

The spot rates on 3rd September are USD 49.3700/3800 and USD/SGD 1.7058/68. The swap points are:

USD /₹		USD/SGD	
Spot/September	0300/0400	1st month forward	48/49
Spot/October	1100/1300	2nd month forward	96/97
Spot/November	1900/2200	3rd month forward	138/140
Spot/December	2700/3100	Spot/January	3500/4000

Calculate the rate to be quoted to the importer by assuming an exchange margin of 5 paisa.

Answer:

USD/ ₹ on 3rd September	49.3800
Swap Point for October	0.1300
	49.5100
Add: Exchange Margin	0.0500
	49.5600
USD/ SGD on 3rd September	1.7058
Swap Point for 2nd month Forward	0.0096
	1.7154

Cross Rate for SGD/ ₹ of 30th October

USD/ ₹ selling rate = ₹ 49.5600

SGD/ ₹ buying rate = SGD 1.7154

SGD/ ₹ cross rate = ₹ 49.5600 / 1.7154

= ₹ 28.8912

CASE STUDY 1

On April 3, 2023, a bank quotes the following spot exchange rates and swap points for the US Dollar (USD) to Indian Rupee (INR):

- **Spot Exchange Rate (USD 1):** INR 74.1234 - 74.5678
- **2 months' swap points:** 120 - 150
- **3 months' swap points:** 250 - 300

In a spot transaction, delivery is made after two days. Assume the spot date is April 5, 2023, and 1 swap point = 0.0001. You are required to answer the following questions:

Question 1:

What are the swap points for 2 months and 15 days?

A. 175 - 210

B. 190 - 230

C. 170 - 200

D. 185 - 225

Question 2:

What is the foreign exchange rate for June 20, 2023 (2 months and 15 days forward)?

A. 74.2984 - 74.7988

B. 74.1419 - 74.5903

C. 74.2900 - 74.7890

D. 74.3500 - 74.8500

Question 3:

What is the annualized premium/discount for USD on INR based on an average rate?

A. Premium of 0.2215% - 0.2517%

B. Discount of 0.1525% - 0.1855%

C. Premium of 0.1198% - 0.1448%

D. Discount of 0.0830% - 0.1240%

Answer:

Question 1:

D is correct.

Question 2:

B is correct.

Question 3

C is correct.

Explanation:

To be discussed in class