

FOREX
CLASS - 7

Page No. 65
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Ex: Spot \$/€ 1.0580
6 M Forward Discount on € (Annualised) = 5%.
Calculate 6 M Forward rate?

$$\frac{F - S}{S} \times 100 \times \frac{12}{n} = -5$$

$$\frac{F - 1.0580}{1.0580} \times 100 \times \frac{12}{6} = -5$$

MCG

€ → Base Currency

∴ Discount

$$F < 1.0580$$

Exact → 5% (Annualised)

⇒ 2.5% for 6 month

$$\therefore F = 1.0580 \times 97.5\% \\ = 1.03155 \quad (\text{Ans})$$

Written

$$\frac{F - S}{S} \times 100 \times \frac{12}{n} = -5$$

$$\Rightarrow \frac{F - 1.0580}{1.0580} \times 100 \times \frac{12}{6} = -5$$

$$\Rightarrow \frac{F - 1.0580}{1.0580} = -0.025$$

$$F = 1.03155 \quad (\text{Ans})$$

Imp.
sum.
came in
Exam

CASE STUDY 1

Rate of Discount quoted by bank :-

$$\frac{F-S}{S} \times 100 \times \frac{365}{n}$$

$$= \frac{78.8-80}{80} \times 100 \times \frac{365}{90}$$

$$= -6.08\% \quad (a)$$

(2) Probable loss if Forward sale agreed :-

$$= 50,000 \times (79.5 - 78.8)$$

$$= 35000 \quad \text{Loss} \quad (c)$$

Swap points

i) It is the difference between F & S .

ii) Given S & Swap points, we have to calculate F .

iii) Should we add or deduct the Swap points?

Situation-1

- If it is given that the base currency is at a Forward Premium $\rightarrow$ Add
- If it is given that the base currency is at a Forward Discount $\rightarrow$ Less

Situation-2

- If premium or Discount not given : —

Case I : If swap points are low/high like 10/20 → Add

Case II : If swap points are high/low like 20/10 → less

Ex:

Spot rate \$/£ 1.7680 / 1.7720

3 M swap points 90 / 110 $\div 10,000$

$$\begin{aligned} \therefore 3 \text{ M forward rate} &= \frac{1.7720}{\text{\$/£}} \\ &= \frac{1.7680 + 0.0090}{1.7720 + 0.0110} \\ &= 1.7770 / 1.7820 \text{ (Ans)} \end{aligned}$$

Ex:

Spot rate £/€ 0.7610 / 0.7680

6 M swap points = 80 / 60

$$\begin{aligned} \therefore 6 \text{ M F } (\text{£/€}) &= \frac{0.7610 - 0.008}{0.7680 - 0.006} \\ &= 0.7530 / 0.7620 \text{ (Ans)} \end{aligned}$$

Q1. Spot £/\$ 1.2610/1.2680
 3M swap 80/110

$$\therefore 3MF = \frac{1.2610 + 0.0080}{1.2680 + 0.0110} = \frac{1.269}{1.279}$$

Q2. Spot £/\$ 0.8630/10

3 month swap = 50/90

$$\therefore 3MF £/$ = \frac{0.8630 + 0.005}{0.8710 + 0.009} = \frac{0.8680}{0.8800}$$

Ex: Spot £/\$ 85.40/86.20
 3M swap points = 70/90 ... $\therefore \div 100$

$$\therefore 3MF £/$ = \frac{86.10}{87.10}$$

Ex: Spot \$/£ 1.0690/1.0740
 6M swap points = 0.70/0.90 cents ... $\therefore \div 100$

$$\therefore 6MF $/£ = \frac{1.0690 + 0.007}{1.0740 + 0.009} = \frac{1.0760}{1.0830}$$

Q3 Spot £/\$ 83.20/83.70
 1m swap 110/130
 3M swap 220/280

$$\therefore 1M Forward £/$ = \frac{83.20 + 1.1}{83.70 + 1.3} = \frac{84.30}{85.00}$$

$$3MF £/$ = \frac{83.20 + 2.20}{83.70 + 2.80} = \frac{85.40}{86.50}$$

Q4. Spot \$/€ 0.9630 / 0.9680

3M swap pts 130 / 110

$$\begin{aligned} \therefore 3MF \quad \$/\text{€} &= 0.9630 - 0.013 / 0.9680 - 0.0110 \\ &= 0.9500 / \cancel{0.9570} \quad 0.9570 \end{aligned}$$