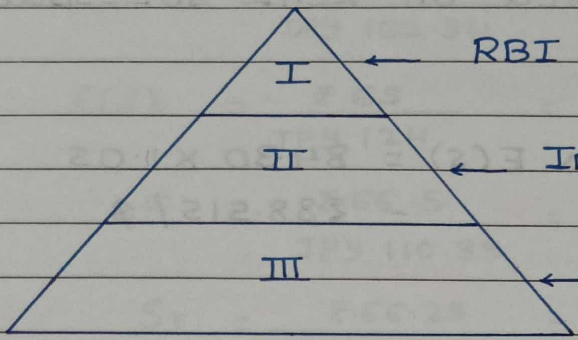
* Part 2: Regulatory stuff

RBI → Regulator of forex market.



← RBI & Banks

← Interbank / Wholesale

← Retail / Merchant Market
↓

✓ TT rates   TC rates

✓ Bill rates   Margin / commsn.

Eg: Interbank → ₹/$ 83.6040 / 83.9230

1) A retail customer wants to buy $. What will be the rate of retail customer given that -

TT buying commission = 0.2%

TT selling commission = 0.3%

Soln :- 83.9230 + 0.3% = ₹ 84.1748 / $

Buy krna h ∴ ask rate. TT selling commission bcoz ye dealer k point of view se h .... buy kr rhe h ∴ (+) commission.

2) A retail customer wants to sell $.

Soln :- rate = 83.6040 − 0.2% = ₹ 83.4368 / $

⇒ R/off rules:

1) R/off to the nearest multiple of 0.0025

84.2302 → 84.2300 ; 84.2362 → 84.2350

84.1244 → 84.1250 ; 84.2363 → 84.2375

2) Agar sum me 2 decimal place ka rate diya h & margin lagana h .... Then r/off to 2 digits common sense

Inter Bank : ₹/$ 84.30 / 85.10

TT Buying commsⁿ = 0.2%

TT selling commsⁿ = 0.3%

Retail customer buying rate of \$ = 85.10 + 0.3%
= 85.3553 85.3550
= 85.36 (r/off)

Retail customer selling rate of \$ = 84.30 − 0.2%
= 84.1314 84.1325
= 84.13 (r/off)

This entire part is based on forward contract entered to hedge import / export trns.

RBI & FEDAI guidelines are applicable.

4 situations → 1) Cancellation
2) Extension
} very easy .... think from customr point of view .... no FX swap

3) Early Delivery
4) Automatic cancellation.
} challenging .... think from bank & customer's point of view
FX swap involved.

① Cancellation of a forward contract :-

It involves customer entering into a reverse contract ⇄ Spot.
forward.

Spot contract - if contract is cancelled on maturity date, reverse contract @ spot rate.

Forward contract - if contract is cancelled prior to maturity date, reverse contract @ forward rate.

Calculate loss on cancellation to the customer.

May be flat cancellation charge of ₹100. as per FEDAI

Presently there are no such charges.

(customer point of view)

② Extension :- (customer point of view)

Cancellation + Rebooking.

Q.28	a
CW.pg.10	

Forward contract can be cancelled @ Spot TT Bid Rate.

Interbank spot (₹/$) bid = 65.2900
(-) Exchange margin @ 0.1% = (0.0653)
65.2247

rounded off = 65.2250

Loss on cancellation for the customer
= (65.3450 − 65.2250) × 250000
= ₹ 30000

Total cancellation charges
= Loss on cancellation + charges of cancellation (FEDAI)
= 30000 + 100
= ₹30100

Self Note: Bank has booked forward contract for customer i.e. customer initially bought 2m F^+ on $ @ 65.3450. Now, customer wants to cancel the contract on due date i.e. contract will be cancelled @ spot. Hence, customer will sell contract @ ₹ 65.2900/$ spot.

Part-2

Q.28	b
CW.pg.10	

Self Note: We as bank purchased AUD 100000 from customer i.e. customer sold 3m F^- AUD 100000 to bank @ ₹ 47.2500/AUD. Customer wants to cancel contract after 2 months (prior to maturity) i.e. buy now @ 1 month forward ₹ 47.5200/AUD

Contract will be cancelled @ 1 month forward ask rate of ₹ 47.5200/AUD

∴ Loss on cancellation or cancellatⁿ charges

$= (47.5200 - 47.2500) \times 100000$

$= ₹\ 27000$

Self practice : Q.29] cw. pg. 10

Q.30	pg
cw. 11	

Implied 1 month forward (₹/sw. Fr.) ask

$= \dfrac{1mF\ (₹/\$)\ ask}{1mF\ (Sw.Fr./\$)\ bid}$ ← after adj. margin

Imp

Bank purchase kr rha h mtlb customer 3mF⁻ sell kr rha h @ ₹ 32.4000/sw.Fr. Customer wants to cancel contract 1 m prior ∴ 1mF⁺ buy

Contract will be cancelled @ 1 month forward ₹/sw.Fr. TT ask rate.

Given: Spot (₹/\$) ask	49.4455
(+) swap point	0.4200
	49.8655
(+) Margin @ 0.1%	0.0499
1 m F (₹/\$) ask	49.9154
1 m F (Sw.Fr./\$) bid	1.5150

∴ 1 m F (₹/Sw. Fr.) TT ask rate $= \dfrac{49.9154}{1.5150} = 32.9475$ rounded off

Loss on cancellation to the customer

$= (32.9475 - 32.4000) \times 100000$

$= ₹\ 54750$

Q.31	pg
cw. 11	

Importer customer i.e. buy forward @ ₹ 41.87
cancelled on maturity @ spot i.e. sell @ ₹ 40.4800/$

Extension involves - Step 1: Cancellation of old contract
Step 2: Rebooking of new forward contract

Step 1: Cancellation:
Contract will be cancelled @ spot TT bid rate

Interbank spot (₹/$) bid	40.4800
(-) buying commsn @ 0.08%	0.0324
	40.4476
rounded off	40.45

(in 2 decimals bcoz contracted rate is in 2 decimals)

cost of customer = cancellation loss
= (41.87 - 40.45) × 10000
= ₹14200

Step 2: Re-booking pehle buy rebooking pe bhi buy
Re-booking shall be @ 3m forward ₹/$ TT ask rate

Interbank spot (₹/$) ask	=	40.4900
(+) Swap points	=	0.3750
		40.8650
(+) Margin @ 0.25%	=	0.1022
		40.9672
rounded off		40.97

Self practice : CW. Q.32] pg.12
HW. Q.16] pg.07
HW. Q.17] pg.07 - pehle sell → rebook pe sell
HW. Q.18] pg. 08