Forex Swap :- (background topic no. 1)

Exchange & Reexchange currencies

- Buy - Sell Swap → Buy spot, sell forward.
- Sell - Buy Swap → Sell spot, buy forward.

Right now, we are studying swap in the context of Early Delivery & Automatic Cancellation.

- Interbank hoga.
- FX Swap Gain / Loss nikalna hoga.

Fixed Date Forward vs. Option Forward Contracts :- (background topic no. 2)

→ Option Forward Contract

Settlement / Delivery will be left to the choice of the customer

Eg: Spot 4th Jan ₹ _ _ / $

spot / Jan
spot / Feb
spot / Mar

} Swap points diye h .... iska mtlb h wo swap points us month k kisi bhi din k liye h not for a specified date

→ Fixed date Forward contract

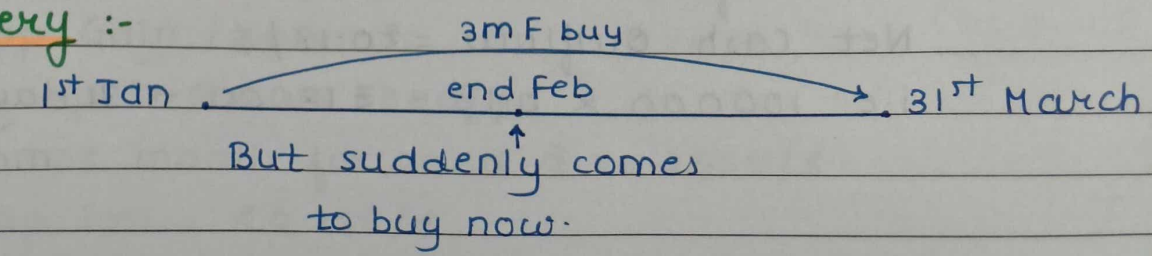
Settlement / Delivery will be made only on the date specified.

Eg: spot 4th Jan ₹ _ _ _ / $

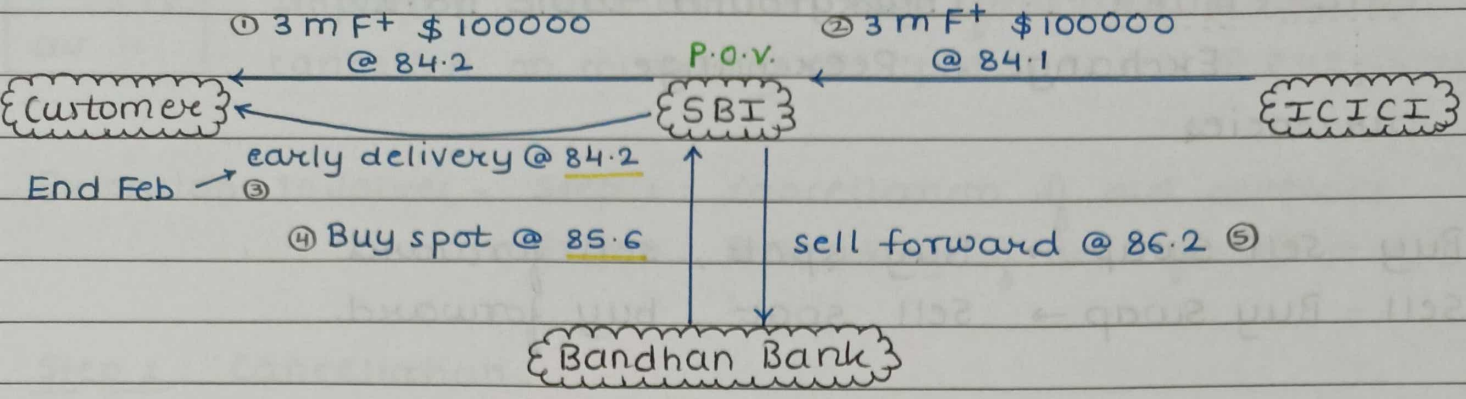
1 m Forward swap points
2 m Forward swap points
3 m Forward swap points

} Yaha say Feb month k kisi bhi din settlement nhi hoga .... specified date

③ Early Delivery :-



Early delivery me purana contract cancel nhi hota... Agar cancel hota toh extension jaisa hojata na!!!



FX swap buy - sell

Swap Gain = 60000 → t/f to customer

Net Cash Outflow = (85·6 - 84·2) × 100000 = 140000

Interest will be charged at higher interest rate for 1 month

[P·O·V. : SBI k point of view se sochna h...]

Part-2

Q·33	Pg
Qv. 12	

(Exporter wala sum)

In case of early delivery, old contract with the customer will not be cancelled. Bank has to enter into a sell buy swap...

Step 1 : Swap Gain / Loss :-

Sell spot @ ₹ 70·22 / $

Buy Forward one month F+ @ 70·27 - 0·10 = ₹ 70·17 / $

∴ Swap Gain = 70·22 - 70·17 = 0·05

Overall Swap Gain = 100000 × 0·05 = ₹ 5000

₹ 5000 to be transferred to the customer.

Step 2 : Net Cash Inflow / Outflow :-

Cash Outflow @ ₹ 70·40 / $

Cash Inflow @ ₹ 70·22 / $

Net Cash Outflow = ₹ 0·18 / $

i.e. 100000 × 0·18 = ₹ 18000 → 31 days prior to maturity

Exporter: Sell - Buy swap } Early Delivery
Importer: Buy - sell swap }

∴ Interest to be charged from customer
= 10% of 18000 × 31/365
= ₹153

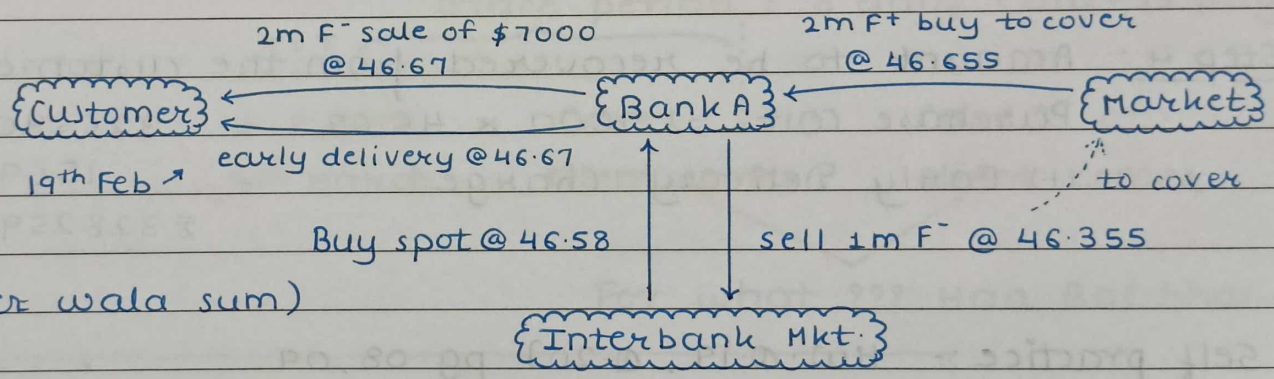
Step 3: Total Early Delivery Impact on the customer :-

Swap Gain	= ₹5000
(-) Int. charged	= ₹153
Gain	₹4847

Step 4: Total cash Inflow for the customer :-

Sales proceeds	= 100000 × 70.40 = 7040000
(+) Total Early Delivery Gain	= 4847
Cash Inflow.	₹7044847

Q.34 pg
CW · 13
Imp



(Importer wala sum)

Bank would sell $7000 to the customer @ 46.67. However, it would recover the loss from customer for early delivery On 19th Feb, bank would buy $7000 from interbank mkt. & sell to the customer. Futher, bank would enter into one month forward contract to sell $ acquired under the cover deal i.e. Bank would enter into Buy-sell swap.

Step 1 : Swap Gain / Loss :-
Buy spot @ ₹46.5800/$
Sell one month forward @ 46.3550/$
∴ Swap Loss = ₹0.225/$

Overall Swap Loss = 0.225 × 7000 = ₹1575

Step 2: Net Cash Inflow / Outflow :-

Cash Inflow @ ₹46.67 / $

Cash outflow @ ₹46.58 / $

Net Cash Inflow = ₹ 0.09 / $

i.e. 7000 × 0.09 = ₹ 630

Interest on inflow of funds for 1 month

= 12% of 630 × 1/12 = ₹ 6.3 i.e. ₹ 6

Step 3: Total Early Delivery impact on the customer :-

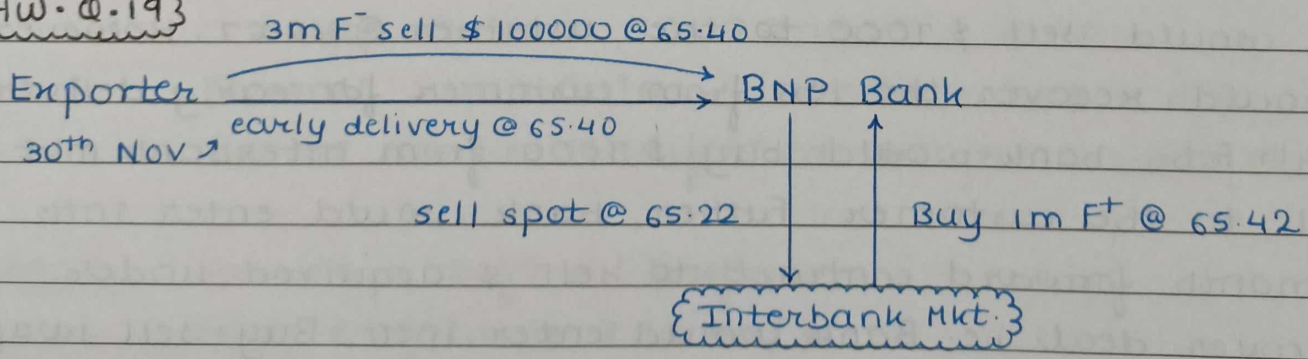
Swap loss	1575
(-) Interest earned	6
Early D. Charge	1569

Step 4: Amount to be recovered from the customer :-

Purchase Cost = 7000 × 46.67	=	326690
(+) Early Delivery Charge	=	1569
		₹ 328259

Self practice :- HW. Q.19, Q.20] pg. 08, 09.

{HW. Q.19}



{HW. Q.20} 2nd part of the sum is Imp.

Imp (ii) Imp