

FOREX CLASS 15

HOME WORK SUPPORT

COVERAGE

Question			Answer			Lecture Time
Q. No	Page no.	Book	Q. No	Page no.	Book	
Extra Q1	59	HW ANS BOOK	Extra Q1	60	HW ANS BOOK	00:00:30 TO 00:02:32
Extra Q2	60	HW ANS BOOK	Extra Q2	61	HW ANS BOOK	00:02:33 TO 00:04:33

PART III: FX EXPOSURE AND HEDGING**EXTRA QUESTION****Topic 13 EXPOSURE STRATEGY MATRIX****Question:**

Place the following strategies by different persons in the Exposure Management Strategies Matrix.

Strategy 1 : Mr. Ravi an exporter wants to increase his customer base so he started raising invoices in the home currency of the customers. He will periodically enters into forward contracts only with the intension of gaining profits out of it and not to hedge his position.

Strategy 2: AB trading company after receiving the invoice in foreign currency covers its position in the Forward or Future markets and hence never leave the exposure open even for a single day.

Strategy 3: Rama invoices his customers in foreign currency, him being a contended person does not care about the loss arising from foreign exchange fluctuations. So he keeps his positions unhedged.

Strategy 4: Infosys ltd an exporter of software services has receivables mostly in dollars. To hedge this risk they have a treasury department. The treasury department after entering into the hedge frequently closes its position as soon as a profit opportunity arises.. As a result management has started looking Treasury Department as Profit Centre.

(Source: FOD)

ANSWER:

Strategy 1: This strategy covers Low Risk: Reasonable reward category as the exposure is covered wherever there is anticipated profit otherwise it is left.

Strategy 2: This strategy is covered by Low Risk : Low Reward category as company plays a very safe game.

Strategy 3: This strategy is covered by High Risk: Low Reward category and worst as it leaves all exposures unhedged. Although this strategy does not involve any time and effort, it carries high risk.

Strategy 4: This strategy is covered by High Risk: High Reward category as to earn profit, cancellations and extensions are carried out. Although this strategy leads to high gains but it is also accompanied by high risk.

Diagrammatically all these strategies can be depicted as follows:

		High Risk	
Low	Strategy 3	Strategy 4	High
Reward	Strategy 2	Strategy 1	Reward
		Low Risk	

PART IV: INTERNATIONAL PARITY CONDITIONS
EXTRA QUESTION
Similar to Question No. 65(CW) 2nd Part
Question:

A Ltd. is an Indian firm exporting gemstones to London. All the exports are invoiced in GBP. The firm has a receivable of GBP 40,000 expected to be realized in 3 months time and has the following information from its banker:

	Exchange Rates
Spot	INR/GBP 98.00/98.30
3-m forward	INR/GBP 99.10/99.50

Assume that A Ltd. anticipates the spot exchange rate in 3-months time to be equal to the current 3-months forward rate. After 3-months the spot exchange rate turned out to be INR/GBP 99.25/99.70. What is the foreign exchange exposure and risk of A Ltd.?

(Source: FOD)

ANSWER:
Exchange Exposure to A Ltd.

Expected Realisation as per Forward Rate (GBP40,000 X 99.10)	INR 39,64,000
Actual Realisation as per actual Spot Rate (GBP40,000 X 99.25)	INR 39,70,000
Gain	6000