

-:- Partial Hedging :-

FX: L17 → Part-1

Indian Co. → SGD 100000 payable after 3 months

3m F → ₹/\$ 84.20 / 85.10

3m F → \$/SGD 0.2650 / 0.2690

(₹/SGD) ask 3m F (full hedge) = $85.10 \times 0.2690 = 22.8919$

If full hedge → $22.8919 \times 100000 = 2289190 = \text{outflow}$

Indian Co. is ok with covering SGD against USD forward

but feels that ₹/\$ should not be covered as 3m F ₹/\$

is overpriced. So, it will remain unhedged w.r.t. \$

After 3 m, ₹/\$ spot 83.90 / 84.65

Step 1: Co. buys SGD 100000 3m F @ 0.2690

∴ USD payable after 3m = 26900

Step 2: Buy USD 26900 spot after 3m @ 84.65

∴ outflow = 2277085

Profit from partial hedge = $2289190 - 2277085 = ₹12105$

Q.43	pg
Q.17	

¥10 lakh is payable after 6m

We require (₹/¥) ask rate since we have to buy ¥

$$6mF (\text{₹/¥}) \text{ask} = \frac{46.03}{110} = 0.4185$$

a) Full Hedge -

6m F ($\text{₹}/\text{¥}$) ask = $0.4185 \Rightarrow$ implied 6m F ($\text{₹}/\text{¥}$) ask

Notional ₹ outflow = $100000000 \times 0.4185 = \text{₹}418500$

b) Partial Hedge -

Step 1: Buy ¥ 6m F from Tokyo @ 110

us\$ payable in 6m = $\frac{100000000}{110} = \9090.91

Step 2: Buy \$ spot after 6m @ 46.26

₹ outflow after 6m = $\$9090.91 \times \text{₹}46.26/\$$
= $\text{₹}420545$

$\therefore$ Loss in the partial hedge strategy = $420545 - 418500$
= $\text{₹}2045$

Self practice :- Hw. @ 28] pg. 12

Part-2

-/- Non-Deliverable Forward Contract :-

offshore (India k bahar)

Non-convertible or partially convertible currencies are traded & settled in USD.

Sumr :- Indian Co. $\rightarrow$ SKW payable in 1 month wants to hedge But forward market in SKW is not available So Indian Co. $\rightarrow$ Buy SKW in NDF market & later settles the G/L in USD. Convert USD into ₹ spot on maturity.

Also, Indian Co. buys SKW spot on maturity $\rightarrow$

story $\rightarrow$ ₹ outflow.

Q.44	pg	Indian Co. $\rightarrow$ SKW 1190 million payable in
W. 18		1 month.

Implied spot ($\text{₹}/\text{SKW}$) ask on 1st Feb

= $\frac{75.50}{1190} = \text{₹}0.0634/\text{SKW}$

(i) Do Nothing :-

$$\text{Implied } (\text{₹/skw}) \text{ ask after 1 month} = \frac{75.75}{1188} = 0.0638$$

$$\therefore \text{Loss as compared to 1st Feb} = (0.0638 - 0.0634) \times 1190 \text{ million} \\ = ₹ 476000$$

(ii) NDF contract :-

Step 1: Buy SKW 1190 million 1 month Forward @ SKW 1190/USD (Hint: u can see base currency is USD i.e. we F on USD)

After 1 month reference rate turns out to be SKW 1185/USD.

So, there is a Gain on NDF -

$$\text{Initial Purchase} = \frac{1190 \text{ million}}{1190} \quad \$ 1000000$$

$$\text{Later Sale} = \frac{1190 \text{ million}}{1185} \quad \$ 1004219.41$$

$$\therefore \text{Profit on NDF} \quad \$ 4219.41$$

This is sold spot @ 75.5 ₹/USD

$$\therefore \text{Profit} = \$ 4219.41 \times ₹ 75.5 / \$ = ₹ 318565$$

Step 2: Buy SKW spot on 1st Mar -

$$\text{outflow} = \frac{75.75}{1188} \times 1190 \text{ million}$$

$$= 0.0638 \times 1190 \text{ million}$$

$$= ₹ 75877525$$

$$\therefore \text{Net outflow under NDF contract} = 75877525 - 318565 \\ = ₹ 75558960$$

If we compare this to 1st Feb, outflow would have been $0.0634 \times 1190 \text{ million} = ₹ 75446000$

$\therefore$ Loss via NDF compared to 1st Feb

$$= 75558960 - 75446000 = ₹ 112960$$

Refer solⁿ of CW @ .44 & Extra
@ .17 given in solution book....
easy to understand....

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Conclusion: Since Alt (ii) has lesser amt. of Loss, we
should choose NDF contract.

Self practice: Extra @ .17, HW solⁿ pg. 64