Date:

⇒ FX swap :- Imp. Ambiguous sum in RTP, MTP....

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V. Imp

Eg: Indian Co. needs \$100000 today to be invested in US for 1 year @ 20%.

Alt 1: Indian Co. can buy \$100000 spot say @ 84.6250 & sell \$ 120000 1 year forward @ say 85.7920

Alt 2: Indian Co. can enter into a buy-sell FX swap for \$100000

Buy \$100000 spot say @ 84.6200

sell \$100000 1 yr forward say @ 85.7950

Also, extra \$20000 (not a part of swap) is sold forward @ 85.7920

Calculate the net cash outflow / inflow at the end of year 1 if the rupee funding cost for Indian Co. is 12% p.a.

Soln :- Alt 1:

Cash Inflow (120000 × 85.7920)	10295040
(-) Cash outflow (100000 × 84.6250 × 1.12)	9478000
	817040

Alt 2:

Cash Inflow: 100000 × 85.7950	8579500
20000 × 85.7920	1715840
(-) Cash outflow: 100000 × 84.6200 × 1.12	9477440
	817900

Conclusion: Alt 2 is advisable

Solution of Q.96] pg. 41

(a) Drilldip should enter into a ₹500 cr buy-sell swap-

→ Buy ₹500 cr spot

→ Sell ₹500 cr 1 yr forward.

(b) Alt 1 : Enter into FX swap -

Step 1 : Buy ₹500 cr spot @ ₹50/$

so amount required = $\frac{500}{50}$ = $10 crore

This is borrowed @ 8% p.a.

∴ cash outflow after 1 year = $10 × 1.08

= $10.8 crores

Step 2 : As a part of swap, sell ₹500 cr 1 year forward @ ₹50/$ getting $10 cr

The extra ₹240 cr remains unhedged & is sold @ ₹54/$ getting $\frac{240}{54}$ = $4.44 cr

∴ cash inflow after 1 year

= 10+4.44 = $14.44 crore

Net cash inflow after 1 year = 14.44 − 10.80

= $ 3.64 crore

(c) Alt 2 : Do Nothing -

Step 1 : Same as above

Step 2 : The entire ₹740 crore remains unhedged & is sold @ ₹54/$ → $\frac{740}{54}$ = $13.7 crore

Net cash inflow in 1 year = 13.7 − 10.8 = $ 2.9 crore

Conclusion : Since, Alt 1 results in higher net cash inflow, Drilldip should enter into FX swap

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Foreign Currency Acccounts :- (Ek country ka bank dusre country k bank me account kholta h)

NOSTRO	VOSTRO	LORO
Apna A/c dusre k paas.	Duste ka a/c apne paas.	kisi aur ka a/c kisi aur k paas.

Eg: CHF denominated A/c at credit suisse opened by Barclay's Bank of UK.

For Credit suisse → VOSTRO A/c

For Barclay's Bank → NOSTRO A/c

For BOB → LORO A/c

ICAI → NOSTRO A/c

(Indian Bank ka Abroad me A/c h...)

1) Exchange position : Daily Net

2) cash position : Credit / Debit

Think from Indian Bank p.o.v.

⇒ Exchange Position :

Particulars	Long (purchase)	short (sell)
• Forward buy / Bill purchase / DD purchase	xxx	-
• Forward sale / Bill issued/ DD sale	-	xxx
• Reversal of long txn	-	xxx
• Reversal of short txn	xxx	-

⇒ Cash Position :

Particulars	Credit	Debit

Part-2

Principle:

1) saare entries exchange position ko effect krega....
2) kewal wo entries jisme foreign currency aara h / jaara h, cash position me credit / debit hoga....

Typical Entries	Ex. position	cash Position
1) Remitted by T.T. (A/c se bheja)	short*	Dr.
2) Sold forward T.T.	short	-
3) Forward purchase / Bill purchase / DD purchase	long	-
4) Forward purchase cancelled	short	-
5) Remittance received	long*	Cr.
6) Draft cancelled	long#	-

(*) spot sale (*) spot buy

(#) CPA course story -
Me SBI pas gayi draft banane .... mene $ buy kiya i.e. SBI ne sell kiya .... Baadme mera mann change hua .... me draft cancel krne gayi .... mene $ sell kiya i.e. SBI ne buy kiya ∴ Long.

Accordingly, you pass all the entries & u arrive @ the closing exchange position & cash position (EP & CP)
They will give us the target closing EP & CP. What spot & forward trns will be required to achieve the target.

Eg: closing balance : CP → 50000 cr
EP → 70000 (oversold)
Target closing balance : CP → 80000 cr
EP → 30000 (overbought)

Sol^n:- Step 1: CP ka target achieve kro spot k through. ∴ Buy spot 30000 cr

Step 2 : Isse EP disturb hogaya
Ab EP 40000 short hogaya
Ab 70000 forward buy krenge to 30000 (overbought) position aagayi .....

Eg :

	Actual	Target
Closing EP	50000 (long)	90000 (long)
closing CP	80000 (Dr.)	50000 (Cr.)

Solⁿ :- Step 1 : Achieve target CP through spot
∴ 130000 spot buy → C.P. will become 50k Cr.
Step 2 : Due to step 1, EP became 180000 (Long)
∴ 90000 forward sell → E.P. will become 90000 (long)

Eg :

	Actual	Target
closing CP	70000 (Cr)	10000 (Cr)
Closing EP	25000 (short)	50000 (long)

Solⁿ :- Step 1 : 60000 spot sell
Step 2 : EP became 85000 (short)
∴ 135000 forward buy

Q.37 pg CW. 14

1) Exchange position :-

Particulars	Long (purchase)	short (sell)
Opening Position	100000	-
Purchased a bill on london	160000	-
Sold Forward TT	-	120000
Forward purchase cancelled	-	60000
Remitted by TT	-	150000
Draft on London cancelled	60000	-
	320000	330000

Closing exchange position (short)	10000	-
	330000	330000

2) Cash Position

Particulars	Credit	Debit
Opening Balance	200000	-
Remitted by TT	-	150000
	200000	150000
Closing Balance (Cr.)	-	50000
	200000	200000

To achieve the target credit balance of 65000, dealer should buy GBP 15000 spot.
Since closing position was 10000 (oversold), this spot purchase will make the exchange position 5000 (overbought). To achieve the target oversold position on GBP 20000, the dealer should sell GBP 25000 forward.

∴ GBP 15000 spot buy &
GBP 25000 forward sell.

Self practise : HW. Q. 23, Q. 24] pg. 10, 11
Extra Q. 1] pg. 58 → HW. Soln. Book