

FOREX CLASS

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Date 07/01

- Type II - Cover Rate Higher level sums



will have to decide from where (source) to cover

Q1. Buy 10 lakh DKK
Sold @ ₹/DKK = 6.5150

₹/£ 74.3000 / 74.3200

₹/\$ 49.2500 / 49.2625

DKK/£ 11.4200 / 11.4350

DKK/\$ 07.5670 / 07.5840

$$\therefore \text{₹/DKK} = \frac{74.3000}{11.4350} \bigg/ \frac{74.3200}{11.4200}$$

$$= 6.4976 / 6.5079$$

$$\text{₹/DKK} = \frac{49.2625}{07.5670} = 6.5102$$

$$\therefore (6.5150 - 6.5079) \times 10 \text{ lakh} = 719 \text{ profit (C)}$$

Deceptive Dealer sold DKK 10,00,000 @ ₹ 6.5150 per DKK [short position]

So, dealer has to cover itself by buying DKK either through London or through New York.

Alternative I: Cover through London

$$\text{Implied (₹/DKK) ask} = \frac{74.3200}{11.4200} = 6.5079$$

Alternative II: Cover through New York

$$\text{Implied } (\$/\text{DKK}) \text{ ask} = \frac{49.2125}{07.5670} = 6.5102$$

Hence, Dealer should cover through London @ 6.5079

$$\begin{aligned} \text{Profit} &= (6.5150 - 6.5079) \times 10,00,000 \\ &= \text{£}100 \text{ approx (Option C)} \end{aligned}$$

• Type III - Cover Rate Ambiguous Sum

Q2. sold 5,00,000 \$ @ $\text{€}/\$ = 1.3280$.

\$ buy

square up $\rightarrow$ he has to buy \$ spot against €

$$\$/\$ = 81.2000 / 81.2200$$

$$\text{€}/\$ = 1.3280 / 1.3330$$

$\$/\text{€}$

$\therefore$ loss: buy.
ask rate

Q. In the original question (Past exam paper not MCQ), ICAI gave the loss amount in the solution in £ terms. So you have to answer in £ terms (Imp)

Solⁿ: Dealer sold \$ 500,000 spot @ $\$/\text{€} = 1.3280$

So, he has to cover himself by buying \$ spot. We need $(\$/\text{€})$ ask rate. It is given 1.3330.

$$\begin{aligned} \therefore \text{loss to dealer} &= (1.3330 - 1.3280) \times 500,000 \\ &= \text{£} 2500 \end{aligned}$$

This loss has to be specified in £ terms.

So, dealer has to buy € 2500 Spot.

$$\text{Implied } (\text{₹}/\text{€}) \text{ ask rate} = \frac{81.2200}{1.3280}$$

$$= 61.1596$$

$$\therefore \text{Loss} = 2500 \times 61.1596$$

$$= ₹ 152,900 \text{ (Ans)}$$

Exam me
high frequency

Type IV - Cover Rate - Delay in Negotiation of bill
Under L/C → ignore

Q 3. 30,00,000 SGD buy → ₹/SGD ask rate needed

	31.1	06.02
₹/US \$	47.85/47.90	47.91/47.95
US/₹	1.7840/1.7850	1.7765/1.7775
SGD/₹	3.1575/3.1590	3.1380/3.1390

$$\begin{aligned} \text{₹}/\text{₹} &= \frac{47.90 \times 1.7850}{85.31/85.5015} & \frac{47.95 \times 1.7775}{85.11/85.2311} \\ &= 85.31/85.5015 & 85.11/85.2311 \end{aligned}$$

$$\therefore \text{₹}/\text{SGD} = \frac{85.31}{3.15} \div \frac{85.3644}{3.1575} = 27.0789$$

$$+25\% = 27.1127$$

- Calculate loss/gain due to delay? Also calculate the final amount paid to bank on 6th Feb and the % Gain/Loss.

Solⁿ: Need to Purchase SGD 30,00,000 against ₹ and
∴ (₹/SGD) ask rate is required to calculate.

January 31st

$$\text{Imp}(\text{₹/₤}) \text{ ask} = 47.90 \times 1.7850 \\ = 85.5015$$

$$\therefore \text{Imp } \text{₹/₤} \text{ ask} = \frac{85.5015}{3.1575}$$

$$= 27.0769$$

$$+ \text{Margin } (0.125\%) = 0.0338$$

$$\text{Retail } \text{₹/₤} \text{ ask} = \frac{(2/₤)}{27.1127}$$

February 6th

$$\text{Implied } (\text{₹/₤}) \text{ ask} = 47.95 \times 1.7775 \\ = 85.2311$$

$$\therefore \text{Implied } \text{₹/₤} \text{ ask} = \frac{85.2311}{3.1380}$$

$$= 27.1610$$

$$+ \text{Margin } (0.125\%) = 0.0340$$

$$\underline{27.1950}$$

$$\text{So Final payment on 6th Feb} = 30,00,000 \times 27.1949 \\ = \text{₹ } 815,84,760$$

$$\text{Loss due to delay} = (27.1949 - 27.1127) \times 30,00,000 \\ = \text{₹ } 2,46,600$$

$$\therefore \text{loss (\%)} = \frac{246,600}{81584700} \times 100$$

$$= 0.302\%$$

CASE STUDY 1

€ 300,000 sell → £/€ bid.

Particulars	28.11.	02.12.
£/\$	48.00/48.05	47.95/47.99
\$/£	1.5665/1.5667	1.5668/1.5670
€/\$	1.6100/1.6102	1.6097/1.6099

$$\therefore \text{£/£} \quad \begin{array}{l} 48 \times 1.5665 \\ = 75.192 \end{array} \quad \begin{array}{l} 47.95 \times 1.5668 \\ = 75.1281 \end{array}$$

$$\therefore \text{£/€} \quad \begin{array}{l} 75.192 \\ 1.6102 \\ = 46.6973 \end{array} \quad \begin{array}{l} 75.1281 \\ 1.6099 \\ = 46.6663 \end{array}$$

$$\text{less: Margin } 125\% = 0.0583 \quad = 0.0583$$

$$46.6390$$

$$46.6080$$

$$\therefore \text{loss} = (46.6080 - 46.6390) \times 300,000$$

$$= -9300$$

$$\therefore \text{£ inflow} = 46.6080 \times 300,000$$

$$= £13,982,400$$

Note : There are some important sums on cross rate related to forward contracts will be done later .