

FOREX CLASS 5

CLASS WORK COVERAGE

To streamline our learning process, I've categorized the questions we'll tackle in class into four distinct groups:

1. **Classic:** *These questions are exactly as presented in your book, providing a familiar foundation.*
2. **Transformed:** *Here, we've converted book questions into multiple-choice format to enhance your analytical skills.*
3. **Adapted:** *These are similar to book questions but with altered numbers or names, presented as multiple-choice questions for varied practice.*
4. **Original:** *These are entirely new questions not found in your book, designed to challenge and expand your understanding.*

This structure will help us navigate through a range of problems, ensuring a comprehensive grasp of the material. Looking forward to our next session!

Q. No	Type	Book	Page No.	Q No.
1	<i>Transformed</i>	CW Q BOOK	4	12
2	<i>Transformed</i>	CW ANS BOOK	69	2
3	<i>Transformed</i>	CW Q BOOK	4	8
Case study 1	<i>Transformed</i>	HW Q BOOK	5	9

Question 1:

You, a foreign exchange dealer of your bank, are informed that your bank has sold a T.T. on Copenhagen for Danish Kroner 10,00,000 at the rate of Danish Kroner 1 = ₹ 6.5150. You are required to cover the transaction either in London or New York market. The rates on that date are as under:

Mumbai-London	₹ 74.3000	₹ 74.3200
Mumbai-New York	₹ 49.2500	₹ 49.2625
London-Copenhagen	DKK 11.4200	DKK 11.4350
New York-Copenhagen	DKK 07.5670	DKK 07.5840

Where should you cover the transaction, and what will be the profit or loss? Ignore brokerages.

- A. Cover in New York with a profit of ₹4,824
- B. Cover in London with a profit of ₹2,295
- C. Cover in London with a profit of ₹7,119
- D. Cover in New York with a loss of ₹2,295

Answer:

C is correct.

Amount realized on selling Danish Kroner 10,00,000 at ₹ 6.5150 per Kroner = ₹ 65,15,000.

Cover at London:

Bank buys Danish Kroner at London at the market selling rate.

Pound sterling required for the purchase (DKK 10,00,000 ÷ DKK 11.4200) = GBP 87,565.67

Bank buys locally GBP 87,565.67 for the above purchase at the market selling rate of ₹ 74.3200.

The rupee cost will be = ₹ 65,07,88

Profit (₹ 65,15,000 - ₹ 65,07,881) = ₹ 7,119

Cover at New York:

Bank buys Kroners at New York at the market selling rate.

Dollars required for the purchase of Danish Kroner (DKK10,00,000 ÷ 7.5670) = USD 1,32,152.77

Bank buys locally USD 1,32,152.77 for the above purchase at the market selling rate of ₹ 49.2625.

The rupee cost will be = ₹ 65,10,176.

Profit (₹ 65,15,000 - ₹ 65,10,176) = ₹ 4,824

The transaction would be covered through London which gets the maximum profit of ₹ 7,119 or lower cover cost at London Market by (₹ 65,10,176 - ₹ 65,07,881) = ₹ 2,295

Question 2:

Your forex dealer had entered into a cross currency deal and had sold US \$ 5,00,000 against EURO at US \$ 1 = EURO 1.3280 for spot delivery.

However, later during the day, the market became volatile and the dealer in compliance with his management’s guidelines had to square – up the position when the quotations were:

Spot US \$ 1	INR 81.2000/2200
1 month margin	20/15
2 months margin	35/25
Spot US \$ 1	EURO 1.3280/3330
1 month forward	1.3310/3370
2 months forward	1.3345/3410

What will be the gain or loss in the transaction?

- A. Net profit of Rs. 1,52,899.09
- B. Net loss of Rs. 1,52,899.09
- C. Net profit of Rs. 2,20,453.25
- D. Net loss of Rs. 2,20,453.25

Answer:

B is correct.

The amount of EURO bought by selling US\$

US\$ 5,00,000 × EURO 1.3280 EURO 6,64,000

The amount of EURO sold for buying USD 5,00,000 × 1.3330 EURO 6,66,500

Net Loss in the Transaction EURO 2,500

To acquire EURO 2,500 from the market @

(a) USD 1 = EURO 1.3280 &

(b) USD1 = INR 81.2200

Cross Currency buying rate of EUR/INR is Rs. 81.2200 / 1.3280 i.e. Rs. 61.1596

Loss in the Transaction Rs. 61.1596 × 2500 = Rs. 1,52,899.09

Alternatively, if delivery to be affected then computation of loss shall be as follows:

EURO to be surrendered to acquire \$ 5,00,000 EURO 6,66,500

EURO to be received after selling \$ 5,00,000 EURO 6,64,000

Loss EURO 2,500

To acquire EURO 2,500 from market @

US \$ 1 = EURO 1.3280

US \$ 1 = INR 81.22

Cross Currency = $81.22/1.3280 = \text{Rs. } 61.1596$

Loss in Transaction ($61.1596 \times \text{EURO } 2,500$) = $\text{Rs. } 1,52,899.09$

Question 3:

An importer customer requested on January 31, 2009 his banker to remit Singapore Dollar (SGD) 30,00,000 under an irrevocable LC. However, due to bank strikes, the bank could effect the remittance only on February 6, 2009. The interbank market rates were as follows:

	January,31	February 6
Bombay US\$1	Rs.47.85/47.90	47.91/47.95
London Pound 1	US\$ 1.7840/1.7850	1.7765/1.7775
Pound 1	SGD 3.1575/3.1590	3.1380/3.1390

The bank wishes to retain an exchange margin of 0.125%.

- A. Net loss of Rs. 1,01,546
- B. Net profit of Rs. 1,01,854
- C. Net profit of Rs. 2,46,519
- D. Net loss of Rs. 2,46,519

Answer:

D is correct.

Conversion Rate between INR and SGD on 31 January, 2009:

Pound 1	= $\text{Rs.}(1.7850 \times 47.90)$
Pound 1	= SGD 3.1575
SGD 1	= $\text{Rs.}(1.7850 \times 47.90) / 3.1575$ = $\text{Rs.}27.0789$
Amount for SGD 30,00,000	= $\text{Rs.}8,12,36,700$
Add: Exchange margin (0.125%)	$\text{Rs.}1,01,546$
Amount was to be paid on 31 January (a)	$\text{Rs.}8,13,38,246$
Conversion Rate between INR and SGD on 6 February, 2009 :	
Pound 1	= $\text{Rs.}(1.7775 \times 47.95)$
Pound 1	= SGD 3.1380
SGD 1	= $\text{Rs.}(1.7775 \times 48.07) / 3.1380$ = $\text{Rs.}27.16097$
Amount for SGD 30,00,000	= $\text{Rs.}8,14,82,911$
Add: Exchange margin (0.125%)	= $\text{Rs.}1,01,854$
Amount paid on 6 February (b)	= $\text{Rs.}8,15,84,765$
Net loss (b – a)	= $\text{Rs.}2,46,519$

CASE STUDY 1

Jai Bharath Industries exported handicrafts to Germany under a letter of credit and submitted all the shipping documents to its banker on November 28, 2002. The amount of the receivable is Euro 3,00,000.

The bank could negotiate the bill on December 02, 2002 and collected an exchange margin of 0.125%. The spot exchange rates as on November 28, 2002 and December 02, 2002 are given below :

		November 28, 2002	December 02, 2002
Mumbai	₹ / \$	48.00 / 05	47.95 / 99
London	\$ / £	1.5665 / 67	1.5668 / 70
	Euro / £	1.6100 / 02	1.6097 / 99

You are required to calculate:

Question 1:

The amount of gain or loss to the exporter due to delay in negotiation of bill under the L/C:

- A. Net profit to the exporter of Rs. 15,000
- B. Net loss to the exporter of Rs. 15,000
- C. Net profit to the exporter of Rs. 9,000
- D. Net loss to the exporter of Rs. 9,000

Question 2:

Actual rupee inflow to the exporter:

- A. Rs. 13.983 million
- B. Rs. 13.603 million
- C. Rs. 14.326 million
- D. Rs. 13.508 million

Answer:

CASE STUDY 1

Question 1:

D is correct.

Question 2:

A is correct.

Explanation:

- i. The customer has to sell Euro to the bank. Hence the relevant rate is / Euro bid rate. To calculate the gain or loss in the transaction, we have to compare the notional rupee inflow on November 28, 2002 with the actual rupee inflow on December 02, 2002.

Notional rupee inflow on November 28, 2002.

$$\begin{aligned}
 \text{₹/Euro bid rate} &= (\text{₹}/\$)\text{ bid} \times (\$/\text{£})\text{ bid} \times (\text{£}/\text{Euro})\text{bid} \\
 &= (\text{₹}/\$)\text{ bid} \times (\$/\text{£})\text{bid} \times \frac{1}{(\text{Euro}/\text{£})_{\text{ask}}} \\
 &= 48.00 \times 1.5665 \times \frac{1}{1.6102} \\
 &= 46.6973
 \end{aligned}$$

$$\begin{aligned}
 \text{Effective rate offered by the bank} &= 46.6973 \times (1 - 0.00125) \\
 &= 46.6389 \text{ Say ₹}46.64
 \end{aligned}$$

Actual rupee / Euro bid rate on December 02, 2002

$$\text{₹/Euro bid rate} = 47.95 \times 1.5668 \times \frac{1}{1.6099} = 46.6663$$

$$\begin{aligned}
 \text{Effective rate offered by the bank} &= 46.6663 \times (1 - 0.00125) \\
 &= 46.6080 \text{ Say ₹}46.61
 \end{aligned}$$

$$\text{Loss to the customer} = 3,00,000 (46.64 - 46.61)$$

- ii. Actual rupee inflow to the exporter

$$= 3,00,000 \times 46.61$$

$$= 13.983 \text{ million}$$