

CLASS-9 ~~FOREX~~V.V. Imp
Q1.

£200M to invest for 6 months

Jap. Stock	Div 1182M	} Alt I
+ Stocklend	10M	
(- Cap. loss	2%	

Alt II - $\frac{US}{\text{A Sec}} = 2.5\%$ Sol:
↓Alt 1 : Invest in Japanese EquityStep 1 : Convert £200M into ¥ Spot

$$200 \times 148.002 = \text{¥}29600.4\text{M}$$

Step 2 : Value after 2% fall

$$= 29600.4 \times 0.98$$

$$= \text{¥}29008.392\text{M}$$

Step 3 : Dividend $\Rightarrow$ ¥1182+ Stock lending charges $\Rightarrow$ 10+ Sale proceeds $\Rightarrow$ 29008.392

$$\text{¥}30,200.392\text{M}$$

Step 4 : Convert to \$ forward

$$= \frac{30,200.392}{150}$$

$$= \$201.336\text{M}$$

Q42 : US G-Sec

Step 1 : Convert 200×1.28
 $= \$256 \text{ M}$

Step 2 : Invest @ 5% p.a.

$\therefore$ After 6 m $= 256 \times 1.025$
 $= \$262.4 \text{ M}$

Step 3 : Convert back to ₹

$$\frac{262.4}{1.30331} = 201.3325 \text{ M}$$

Advise : Since both result in almost equal return, Bank should be indifferent.

i) from a risk perspective, US-G-Sec is preferred ... it is less risky.

Q5. 1) Return for Indian investor = $\frac{17900 - 16200}{16200}$
 $= 10.49\%$

ii) Sell \$150,000 Spot @ 81.10 = ₹121,65,000

No. of Nifty units purchased = $\frac{12165000}{16200} = 750.92593 \text{ units}$

$$\text{Sale proceeds} = 750.92593 \times 17900 = \text{₹ } 134,41,574$$

$$\text{Convert to } \$ = \frac{13441574}{82.5} = \$162928.17$$

$$\therefore \text{Return} = \left[\frac{162928.17 - 150,000}{150,000} \right] \times 100$$

$$= 8.62\%$$

iii Indifferent return = 8.62%

$$\therefore \text{Value of } \$ \text{ after 1 yr} = 3800 (1.0862)$$

$$= 4127.56$$

iv

8.62%

Stock Component
= Nifty Return

$$= 10.49\%$$

currency component i.e.
% Δ in ₹ ka exchange

$$\text{rate } \text{₹}/\$ \left[\frac{S_0}{S_1} - 1 \right] \times 100$$

$$= \left[\frac{81.10}{82.5} - 1 \right] \times 100$$

$$= -1.70$$

Cross product

$$= 1.70\% \text{ of } 10.49\%$$

$$= -0.17833$$

$$\therefore 10.49 - 1.70 - 0.179 = 8.61 \approx 8.62\%$$

Recent
Q3.8.5%
like
Q1.

Att I

$$200 \times 0.0099 \times 98\% = 21.9404 \text{ B}$$

$$+ 0.1369$$

$$+ 0.0007$$

$$\times 2.078 \text{ Billion}$$

$$\div 0.01$$

$$= 2207.8 \text{ Billion}$$

$$\text{Att II} \Rightarrow \frac{200 \times 0.01 \times 1.039}{0.011}$$

$$= 2207.8 \text{ billion}$$

Indifferent $\rightarrow$ Return wise
But risk wise $\rightarrow$ European Treasury is better.

Q4.

Att I: India

$$500 \times 98.8 \times 105\% = 51,870 \text{ M}$$

$$+ \text{Div}$$

$$= 988$$

$$52,858$$

$$\div 97.5$$

$$= 542.133$$

Att II: Russia

$$500 \times 89.6 \times 1.1 = 49,280 \text{ M}$$

$$+ \text{Shock lending charges} = 325.2$$

$$49,605.2$$

$$\div 90.5$$

$$= 542.133$$

a)

Indifferent

b) Yes, then we should avoid Russia