

FOREX

CLASS - 8 - PART - 1

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Date 28, 01, 25

Same once in
from 4. Dangerous

Special sum on Bill discounting under LC [Transit period +
uncurance period]

CASE STUDY 1

Q1. 2M F (£/\$) bid intubank $(67.8000 + 0.21) = 67.8000 + 0.21 = 68.01$
 (-) Margin i.e. 0.1% $= 0.06801$

2M F (£/\$) bid merchant rate = 67.9420

2MF (\$/£) bid $(1.0775 + 0.0040) = 1.0815$

∴ Implied 2M F (£/£) bid $= 67.9420 \times 1.0815$
 $= 73.4793$ (a)

Self Note : £ sell kauna hain against £

∴ £/£ bid rate chare.

$\frac{£}{\$} \times \frac{\$}{£} \therefore \text{bid} \times \text{bid}$
 Margin adjust

(20+60) = 80 days 2M Forward

Transit + unurance period $\Rightarrow$ always lower rounding off

Q2. £ Cashflow to Co $= 259000 \times 73.4793$
 $= 1,83,69,825$ (c).

Q3. Interest for 80 days $= 1,83,69,825 \times 8\% \times \frac{80}{365}$
 $= 322101.04$ (b)

Forward as a Hedging Tool

Concept
type of currency

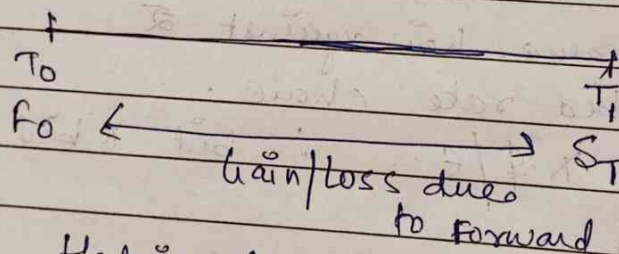
Importer $\rightarrow$ FC payable $\rightarrow$ Afraid of FC $\uparrow$

Exporter $\rightarrow$ FC receivable $\rightarrow$ Afraid of FC $\downarrow$

Enter into a Forward Contract to lock the Exchange rate and you are hedged.

4 types of sum :-

Type 1: Export [hone ke baad]



Hedging Cost = upfront Premium
+ Interest on that

Q3.

Step 1: Hedging Cost

Upfront Premium =
(2% of 60,000 $\times$ 64)

76800

+ Interest lost (12% of 76800 $\times$ $\frac{6}{12}$)

4608

81,408

Step 2 : Profit / loss

Case 1 : $S_T = 68 > 64$

$$\begin{aligned} \therefore \text{Gain due to forward} &= 240,000 \\ (68-64) \times 60,000 \\ (+) \text{ Hedging cost} &= 81,408 \\ \text{Net gain} &= \underline{\underline{158,592}} \end{aligned}$$

Case 2 : $S_T = 62 < 64$

$$\begin{aligned} \therefore \text{loss due to forward} &= 120,000 \\ (62-64) \times 60,000 \\ (+) \text{ Hedging cost} &= 81,408 \\ \text{Total loss} &= \underline{\underline{201,408}} \end{aligned}$$

Case 3 : $S_T = 70 > 64$

$$\begin{aligned} \therefore \text{Gain due to forward} &= 360,000 \\ (70-64) \times 60,000 \\ (+) \text{ Hedging cost} &= 81,408 \\ \text{Net Gain} &= \underline{\underline{278,592}} \end{aligned}$$

Case 4 : $S_T = 65 > 64$

$$\begin{aligned} \therefore \text{Gain due to forward} &= 60,000 \\ (65-64) \times 60,000 \\ (+) \text{ Hedging cost} &= 81,408 \\ \text{Net loss} &= \underline{\underline{21,408}} \end{aligned}$$

Type 2 : Future - Exante

Compare F_0 with $E(S_T)$
 $\Downarrow$
 ΣP_x

Advise : Hedge or not to hedge

Q2.

Alternative 1 : Forward cover

Step 1 : Hedging cost

$$\begin{aligned} \text{Upfront Premium} &= (80,000 \times 74 \times 1\%) = 59,200 \\ + \text{Cost of funds @ } 10\% \text{ for 6 months} &= 2,960 \\ \text{Hedging cost} &= \underline{\underline{62,160}} \end{aligned}$$

Step 2 : Total cost

$$\begin{aligned} \text{Purchase cost } (80,000 \times 74) &= 59,20,000 \\ (+) \text{ Hedging cost} &= 62,160 \\ \text{Total cost} &= \underline{\underline{59,82,160}} \end{aligned}$$

Alternative 2 : Don't Hedge

$$\begin{aligned} \text{Expected Spot rate after 6 months} &= \Sigma P_x \\ &= 0.15 \times 77 + 0.25 \times 71 + 0.20 \times 71 \\ &\quad + 0.4 \times 77 \\ &= 74.7 \end{aligned}$$

$$\therefore \text{Total cost} = 80,000 \times 74.7 = 59,76,000$$

Conclusion : Firm should not hedge as total cost under

Alternative 2 is expected to be lower.

ptf sum^s Forward speculation sum
81.

- i We will ~~enter~~ enter into 3M forward @ \$1.30/£
 - 2 sell £ spot @ \$1.32/£ after 3 months.

$$\begin{aligned} \text{so Profit} &= (1.32 - 1.30) \times 10,00,000 \\ &= \$20,000 \end{aligned}$$

ii loss if spot rate happens to be \$1.26/£

$$\begin{aligned} &= (1.30 - 1.26) \times 10,00,000 \\ &= \$40,000 \end{aligned}$$