

# FOREX CLASS 6

## 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	6	15
2	<i>Transformed</i>	HW Q BOOK	5	10
3	<i>Original</i>	-	-	-
6	<i>Original</i>	-	-	-
7	<i>Classic</i>	CW Q BOOK	5	14



Answer:

**B is correct.**

**The arbitrageur can proceed as stated below to realize arbitrage gains.**

- i. Buy ₹ from USD 10,000,000 at Mumbai  $48.30 \times 10,000,000 = ₹ 483,000,000$
- ii. Convert these ₹ to GBP at London ( ₹483,000,000/₹ 77.52) = GBP 6,230,650.155
- iii. Convert GBP to USD at New York  $GBP 6,230,650.155 \times 1.6231 = USD 10,112,968.26$

There is net gain of USD 10,112,968.26 less USD 10,000,000 i.e. USD 12,968.26

**Question 3:**

If, spot DM/\$ : 1.52/1.53

3m Forward : 1.50/1.51

6m Forward : 1.49/1.50,

then

- A. DM is at a discount for 3m and 6m
- B. \$ is at a discount for 3m and 6m
- C. DM is at a discount for 3m and at premium for 6m
- D. \$ is at a discount for 3m and at premium for 6m

Answer:

**B is correct.**

In this question the Base Currency is Dollar. The 3months & 6 months Forward rates quoted above are lower than spot rates, hence Dollar is at a discount for both 3m and 6m.

**Question 6:**

A dealer provides the following quotes:

Ratio	Spot rate
CNY/HKD	0.8422
CNY/ZAR	0.9149
CNY/SEK	1.0218

Another dealer is quoting the ZAR/SEK cross-rate at 1.1210. The arbitrage profit that can be earned is closest to:

- A. ZAR 3671 per million SEK traded.
- B. SEK 4200 per million ZAR traded.

- C. ZAR 4200 per million SEK traded.  
 D. None of the above

**Answer:**

**C is correct.**

The ZAR/SEK cross-rate from the original dealer is  $(1.0218/0.9149) = 1.1168$ , which is lower than the quote from the second dealer. To earn an arbitrage profit, a currency trader would buy SEK (sell ZAR) from the original dealer and sell SEK (buy ZAR) to the second dealer. On 1 million SEK the profit would be  $SEK\ 1,000,000 \times (1.1210 - 1.1168) = ZAR\ 4200$

**Question 7:**

Citi Bank quotes JPY/ USD 105.00 -106.50 and Honk Kong Bank quotes USD/JPY 0.0090-0.0093.

- Are these quotes identical if not then how they are different?
- Is there a possibility of arbitrage?
- If there is an arbitrage opportunity, then show how would you make profit from the given quotation in both cases if you are having JPY 1,00,000 or US\$ 1,000.

**(Source: ICAI)**

**Answer:**

- No, while Citi Bank's quote is a Direct Quote for JPY (i.e. for Japan) the Hong Kong Bank quote is a Direct Quote for USD (i.e. for USA).
- Since Citi Bank quote imply USD/ JPY 0.0094 - 0.0095 and both rates exceed those offered by Hong Kong Bank, there is an arbitrage opportunity.  
 Alternatively, it can also be said that Hong Kong Bank quote imply JPY/ USD 107.53 – 111.11 and both rates exceed quote by Citi Bank, there is an arbitrage opportunity.
- Let us how arbitrage profit can be made.
 

i. Covert US\$ 1,000 into JPY by buying from Hong Kong Bank	JPY 1,07,530
Sell these JPY to Citi Bank at JPY/ USD 106.50	
and convert in US\$	US\$ 1009.67
Thus, arbitrage gain (US\$ 1009.67 - US\$ 1000.00)	US\$ 9.67
ii. Covert JPY 1,00,000 into USD by buying from	
Citi Bank at JPY/ USD 106.50	US\$ 938.97
Sell these US\$ to Hong Kong Bank at	
JPY/ USD 107.53 and convert in US\$	JPY 100967.44
Thus, arbitrage gain (JPY 1,00,967.44 - JPY 1,00,000)	JPY 967.44