FOREX

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1 Basics

Conversion of currency

$/£ = 1.2575 Base currency = £

If convert £, multiply = £50000 × 1.2575 = $62875

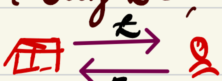
If convert $, Divide = $50000/1.2575 = £39761

Bid & Ask rates

$/£ = 1.2575/1.2625

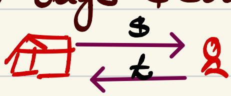
Ask 2 questions ① Base currency = ?
② Bank sell or Buy Base currency

Case 1 Customer buy £50000



Ask Rate = £50000 × 1.2625

Case 2 Customer buys $50000



Bid Rate = $\frac{\$50000}{1.2575}$

Inter Bank rates & Margin

Customer rate = Inter Bank rate ± margin

Bid Rate − margin   Ask Rate + margin

Cross Rates [without Bid-Ask Rates]

₹/£ = 90
$/£ = 1.50
₹/$ = ?

- ₹ Numerator → ₹/$ → take 90
- $ Denominator → $/£ → take $\frac{1}{1.50}$

₹/$ $90 \times \frac{1}{1.50}$ = ₹60

With Bid-Ask rates

₹/£ 90.45 / 91.25

₹/$ 71.25 / 71.75

$/£ = ?

IF we have to divide by "1" take opposite rate. it means Swap Bid & Ask

Bid Rate

$$\frac{1}{71.75} \times 90.45$$

$$= 1.2606$$

Ask Rates

$$\frac{1}{71.25} \times 91.25$$

$$= 1.2807$$

Remember sequence [Higher to Lower]

① £ ② € ③ $ ④ ₹ ⑤ ¥

2. Spot market arbitrage & Triangular arbitrage

Buy cheaper from one market & sell Costlier in other.

3. Forward Cover

(i) Forward Cover v/s No Hedging

(a) Expected Loss = SR & Expected SR

(b) position change in forward cover = SR & FR

Saving in loss due to forward cover = (b) − (a)

(ii) Forward premium or discount

Base currency is $ (₹/$)

$$\text{premium in \$} = \frac{FR - SR}{SR}$$

$$\text{premium in ₹} = \frac{SF - FR}{FR}$$