

4. Currency option

\$/₹

SR 0.0142/0.0143 2 ← $\frac{\$100000}{3 \text{ months}}$ →

FR 0.0146/0.0147

Stock Exchange

Strike price \$/₹ 0.0145

premium Call = \$0.0008 per ₹

put = \$0.0005 per ₹

Contract size = ₹620000

 Always physical delivery at strike price. If expected price is given then compare with strike price.

Step 1 Decide Call or put option

Afraid of ₹ rising, hence call option at EP \$/₹ 0.0145

Step 2 No. of Contracts

change Contract size = ₹620000 × 0.0145 = \$8990

No. = $\frac{\$100000}{\$8990} = 11.12$ i.e 11 Contract [ignored fraction]

option cover \$8990 × 11 = \$98890

forward cover \$100000 - \$98890 = \$1110

Step 3 Cash flows

CI option cover = $\frac{\$98890}{0.0145 \text{ EP}}$ = ₹682000

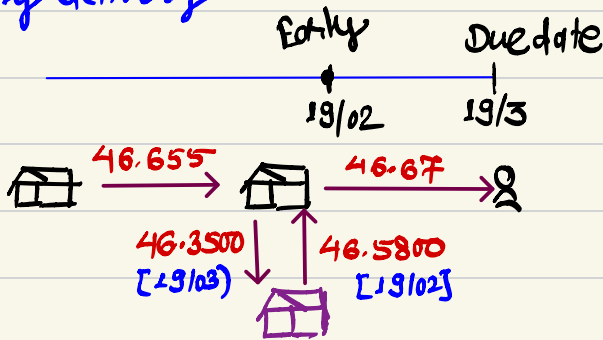
CI forward cover = $\frac{\$1110}{\$0.0147 \text{ FR}}$ = ₹75510

CO premium = $\frac{\$5456}{\$0.0142 \text{ SR}}$ = (₹384225)
(\\$0.0008 × ₹620000 × 11)

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7 Fate of Forward Contract

- 1 Cancellation → Take opposite rate, Bank POV
On maturity → Spot Rate
Before maturity → Forward rate of Due date
- 2 Extension on maturity or before maturity
Contract cancelled & Book new forward contract.
- 3 Early delivery



① Swap Loss or Gain

Buy	46.5800	Swap Loss recovered from customer
Sell	46.3500	$0.225 \times \$7000 = ₹1575$

If Swap Gain, payable to customer

② Interest on Net Cash Flows

$$CI = \$7000 \times 46.67 \quad CO = \$7000 \times 46.5800 \quad \text{Net CI} = ₹630$$

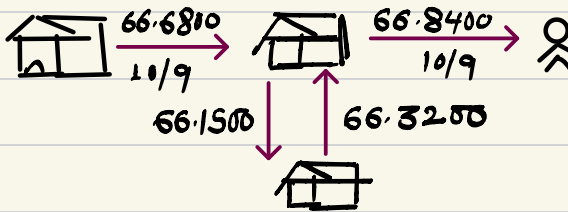
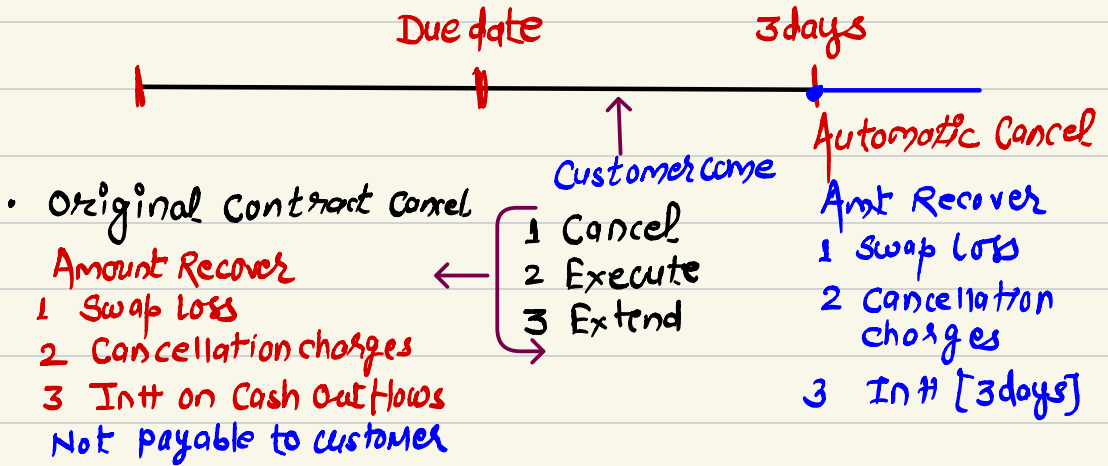
Int on Net Inflows payable to customer: $630 \times 12\% \times \frac{1}{2}$

Int on Net Outflows recoverable from customer

③ Total amount recoverable from customer

$$\$7000 \times 46.67 + 1575 - 630 = ₹328258.70$$

4. Overdue Forward Contract



- 1 Swap Loss
66.3200 & 66.1500
- 2 Intt on Cash Flows
66.6800 & 66.1500

8. Foreign Currency A/c [Nostro A/c]

	Cash position		Exchange position	
	Cr.	Dr.	Long	Short
1 Spot Buy [TT purchased]	xxx	—	xxx	—
2 Spot Sell [Remitted by TT]	—	xxx	—	xxx
3 Forward Buy	—	—	xxx	—
4 Buying contract cancelled	—	—	—	xxx
5 Bill purchased	—	—	xxx	—
6 Draft Cancelled	—	—	xxx	—