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QUESTION – 67

EFD Ltd. is an export business house. The company prepares invoice in customers' currency. Its debtors of US$. 10,000,000 is due on April 1, 2015.

Market information as at January 1, 2015 is:

Exchange rates US$/INR

Spot	0.016667
1-month forward	0.016529
3-months forward	0.016129

Currency Futures US$/INR

Contract size:	₹ 24,816,975
1-month	0.016519
3-month	0.016118

	Initial Margin	Interest rates in India
1-Month	₹ 17,500	6.5%
3-Months	₹ 22,500	7%

On April 1, 2015 the spot rate US$/INR is 0.016136 and currency future rate is 0.016134.

Which of the following methods would be most advantageous to EFD Ltd?

(i) Using forward contract

(ii) Using currency futures

(iii) Not hedging the currency risk

(Study Material, PM, MTP April – 2022 & Exam May - 2015)

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QUESTION – 68

XYZ Ltd. is an export oriented business house based in Mumbai. The Company invoices in customers' currency. Its receipt of US $ 1,00,000 is due on September 1, 2009.

Market information as at June 1, 2009 is:

Exchange Rates US $/₹

Spot	0.02140
1 Month Forward	0.02136
3 Months Forward	0.02127

Currency Futures US $/₹

Contract size	₹4,72,000
June	0.02126
September	0.02118

	Initial Margin	Interest Rates in India
June	₹ 10,000	7.50%
September	₹ 15,000	8.00%

On September 1, 2009 the spot rate US $Re. is 0.02133 and currency future rate is 0.02134. Comment which of the following methods would be most advantageous for XYZ Ltd.

option 1 forward Cover

$$\text{Cash Inflows} = \frac{\$100000}{0.02127} = ₹4701457$$

option 2 Currency future

Step 1 Since $ receivable & we afraid from from $ falling but we have to take position on ₹ hence we should take long position on 3 Month future $/₹ 0.02118

Step 2 No. of Contracts

Exposure in ₹ = $\frac{\$100000}{0.02118}$ = ₹ 4721435

No. = $\frac{4721435}{472000}$ = 10 Contracts Long

Step 3 Cash Inflows

0.02118 ↑

Gain or loss on Currency future

On due date, currency future Rate $/₹ 0.02134, hence Gain on long position

Variation margin = ($0.02134 − $0.02118) × 10 × ₹ 472000
= $755.20

$ receivable = $100000
(+) Variation margin = $755.20
$100755.20

Sell $ 100755.20 at 3 months SR = $\frac{\$100755.20}{0.02133}$ = ₹4723638
(−) opp. Cost (15000 × 10 × 8% × 3/12) = 3000
₹4720638

CI

Option 3 No Hedging

Cash Inflow = $\frac{\$100000}{0.02133}$
= ₹ 4688232

Currency future is the best due to the Highest CI.

(a) Using forward contract

(b) Using currency futures

(c) Not hedging currency risks.

It may be assumed that variation in margin would be settled on the maturity of the futures contract.

(Practice Manual)

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QUESTION – 69

Doom Ltd. is an export business house. The company prepares invoice in customers' currency. Its debtors of US$ 48, 00,000 is due on April 1, 2020.

Market information as at January 1, 2020 is:

Exchange Rate US$/INR		Currency Futures US$/INR	
Spot	0.014285	Contract Size ₹ 2,88,16,368	
1–month forward	0.014184	1 – month	0.014178
3–months forward	0.013889	3 – month	0.013881

	Initial Margin	Interest Rate in India
1 – Month	₹ 27,500	5.5%
3 – Months	₹ 32,500	9%

On April 1, 2020 the spot rate US$/INR is 0.013894 and currency future rate is 0.013893. Recommend as to which of the following methods would be most advantageous to Doom Ltd.

(i) Using forward contract

(ii) Using currency futures

(iii) Not hedging the currency risk

Note: Round off calculation upto zero decimal points.

(RTP May - 2021) (Page No. 98)

QUESTION – 70

JKL Ltd. is an export business house. The company prepares invoice in customer's currency.

Its debtors of US$. 2,00,00,000 is due on April 1,2017.

Market information as at January 1, 2017 is :

Exchange Rate US$/INR		Currency Futures US$/INR	
Spot	0.016667	Contract Size: 31,021,218	
1 – month forward	0.016529	1 – month	0.016519
3 – months forward	0.016129	3 – month	0.016118

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	Initial Margin	Interest rates in India
1 – Month	₹ 32,500	7%
3 – Months	₹ 50,000	8%

On April 1, 2017 the spot rate US$/INR is 0.016136 and currency future rate is 0.016134.

Which of the following methods would be most advantageous to JKL Ltd.?

(i) Using forward contract

(ii) Using currency futures

(iii) Not hedging the currency risk

(Exam November – 2017) (Page No. 100)

in Solution Wrong Calculation

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QUESTION - 71

DSE Ltd. is an export oriented business in Kolkata. DSE Ltd. invoices in customer currency. Its receipts of US $ 3,00,000 is due on July 1st, 2019.

Market information as at April 1st, 2019

Exchange Rate		Currency Futures		Contract Size = ₹ 6,40,000/-
US $/₹		US $/₹		
Spot	0.0154	April	0.0155	
1 Month Forward	0.0150	July	0.0151	
3 Months Forward	0.0147			

Initial Margin		Interest Rates in India
April	₹ 13,000	9%
July	₹ 24,000	8.5%

On July, the spot rate US $/₹ is 0.0146 and currency future rate is 0.0147 comment which of the following methods would be most advantageous for DSE Ltd.

(i) Using forward contract.

(ii) Using currency futures.

(iii) Not hedging currency risks.

It may be assumed that variation in margin would be settled on the maturity of the futures contract.

(Exam May - 2019)

(Page No. 101)

QUESTION – 75

ABC Technologic is expecting to receive a sum of US$ 4,00,000 after 3 months. The company decided to go for future contract to hedge against the risk. The standard size of future contract available in the market is $1000. As on date spot and futures $ contract are quoting at ₹ 44.00 &₹ 45.00 respectively. Suppose after 3 months the company closes out its position futures are quoting at ₹ 44.50 and spot rate is also quoting at ₹ 44.50. You are required to calculate effective realization for the company while selling the receivable. Also calculate how company has been benefitted by using the future option.

$\frac{\$400000}{\$1000} = 400$

₹/$

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(Study Material & PM)

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$400000

45

$240000

FC = 1951219

19047619

16575

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Question – 01 (b)

Export Ltd., an export oriented unit invoices in the currency of the importer. It is expecting a receipt of USD 2,40,000 on 1st August, 2022 for the goods exported on 1st May, 2022. 3 month

The following information is available as on 1st May, 2022:

Exchange Rates		Currency Futures		Contract Size
USD/INR ($/₹)		USD/INR		₹ 6,40,000/-
Spot	0.0125	~~May~~	~~0.0126~~	
~~1 Month Forward~~	~~0.0124~~	July	0.0125	
3 Months Forward	0.0123			

Initial Margin		Interest Rates in India
May	₹ 15,000	9%
August	₹ 26,000	8.5%

On 1st August, 2022 the spot rate USD/INR is 0.0126 and currency future rate is 0.0125.

Suggest a suitable approach to Export Ltd. that would be most advantageous out of the following methods.

(i) Forward Contract.

(ii) Currency Futures.