① Trader sells straddles. it means write 1 call & 1 put at same EP i.e. \$/€ 1.2000 & Recd premium (\$0.035 + \$0.04) \$0.075

on Maturity \$/€ 1.2900, hence Call option will Exercise

Gross Payoff (1.2900 − 1.2000) = (\$0.090)

(+) premium \$0.075

Net Loss \$0.015

(ii) If We Expect price of \$ rise

Strategy 1 Buy call at EP ₹ 44.8000 & pay premium ₹ 0.12 per \$

on Maturity, price ₹ 45

Gross payoff (₹ 45 - 44.8000)	= 0.20
(-) premium	= 0.12
Gain per \$	₹ 0.08
(x) Contract size	\$ 1500000
Gain	= ₹ 120000

Strategy 2 : Write put at ₹ 44.8000 & Recd premium ₹ 0.04 per $

On Maturity price ₹ 45, put Lapsed

Gain = ₹ 0.04 × $ 1500000 = ₹ 60000

QUESTION – 82

XP Pharma Ltd., has acquired an export order for ₹ 10 million for formulations to a European company. The Company has also planned to import bulk drugs worth ₹ 5 million from a company in UK. The proceeds of exports will be realized in 3 months from now and the payments for imports will be due after 6 months from now. The invoicing of these exports and imports can be done in any currency i.e. Dollar, Euro or Pounds sterling at company's choice. The following market quotes are available.

	Spot Rate	Annualized Premium
₹/$	67.10/67.20	$ - 7%
₹ /Euro	63.15/63.20	Euro - 6%
₹ /Pound	88.65/88.75	Pound - 5%

Advice XP Pharma Ltd. about invoicing in which currency.

(Calculation should be upto three decimal places).

(Exam July – 2021)

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7. Cancellation & Extension of forward Contract

(i) Cancellation of forward contract

(ii) Extension of forward Contract

(iii) Early delivery

(iv) Automatic Cancellation.

1 Cancellation of forward Contract

forward Contract Can be cancelled by taking opposite contract.

- Cancellation on Maturity → Take SR
- Cancellation Before Maturity → Take FR

Calculate Gain or Loss to customer

EXAMPLE – 77

Ram had entered into forward ~~to~~ contract buy $ 1,00,000 on due date 01/04/2022 at $\boxed{₹\ 75.00}$. On maturity date 01/04/2022 contract cancelled.

Inter-bank (SR) ₹/$	=	₹ 72.00/72.25
Margin	=	0.10%

Calculate cancellation charges.

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Selling Rate = ₹75.00

Buying Rate (72 - 0.10%) 71.93

Loss to customer 3.07

(x) contract size $100000

Loss = ₹307000

EXAMPLE – 78

Ram had entered into forward contract to sell $ 1,00,000 at ₹ 75.50 after 3 months on maturity, Contract cancelled.

Ask Bid

Inter-bank rates (SR) ₹/$ = 72.50/72.25

Margin = 0.08%

Calculate amount payable to or recoverable from customer.

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Buying Rate = 75.50

Selling Rate

(72.50 + 0.08%) 72.56

Gain to Customer 2.94

(X) Contract $ 100000

Gain ₹ 294000

EXAMPLE – 79 Selling

Selling contract of bank for $ 1,00,000 after 3 months @ $\boxed{72.50}$ on 31/03/2022

Exchange rate on cancellation date: 31/01/2022

31/01/2022 31/3/2022

Inter-bank SR = ₹ 70.25/45

1 month swap = 20/25

2 months swap = 35/40 (31/03/2022)

3 months swap = 65/80

Margin = 0.10%

Calculate amount payable are recoverable from customer.

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Selling Rate = 72.50

(–) Buying Rate

70.25

+ 0.35

70.60

(–) 0.1%

70.53

Loss to customer 1.97

(x) contract size $100000

₹ 197000

EXAMPLE – 80

Selling

- Selling contract of bank @ ₹ 75.50 on maturity customer request to bank for extension of forward contract for 1 month.
- Exchange rate on due date.

Inter-bank SR = 72.75/95

1 month swap = 45/25

2 month swap = 35/20

Contract size = $ 1,00,000

Margin = 0.08%

(i) Calculate extension charges.

(ii) New forward rate.

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New FR 72.95
(−) Swap 0.25
72.70
(+) Margin 0.08% ₹ 72.76

In Extension,
"Original Contract shall be cancelled & New Contract shall be booked"

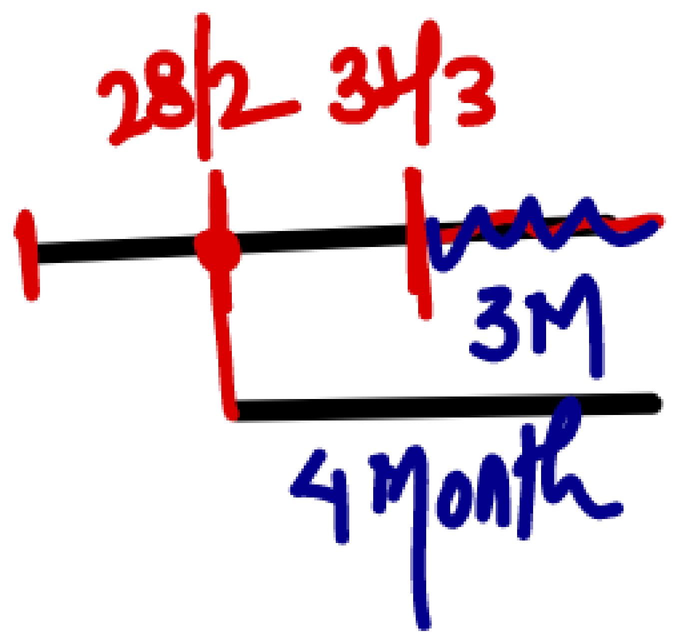
Selling Rate 75.50
Buying Rate (72.75 − 0.08%) 72.69
Loss to customer 2.81
(×) contract size $ 100000
Extension charge ₹ 281000

EXAMPLE – 81 Selling

- Selling contract of bank of $ 1,00,000 at 3 months FR @ ₹ 74.75 due date 31/03/2022
- Contract extend on 28/02/2022 for 3 months

Exchange Rate : 28/02/2022

Inter-bank rate SR	= ₹ 72.50/80
1 months swap	= 40/30
2 months swap	= 50/60
3 months swap	= 75/85
4 months swap	= 70/60
Margin	= 0.10%



(1) Calculate extension charges.

(2) Calculate New FR.

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①

Selling Rate 74.75

Buying Rate

$(72.50 - 0.40) - 0.10\% = 72.03$

Loss to customer 2.72

(X) Contract size $100000

Extension charges ₹ 272000

NEW FR

$$\begin{array}{r} 72.80 \\ -\ 0.60 \\ \hline 72.20 \end{array}$$

(+) Margin 0.10% ₹ 72.27