QUESTION – 113

Your bank's London office has surplus funds to the extent of USD 5,00,000/- for a period of 3 months. The cost of the funds to the bank is 4% p.a. It proposes to invest these funds in London, New York or Frankfurt and obtain the best yield, without any exchange risk to the bank. The following rates of interest are available at the three centres for investment of domestic funds there at for a period of 3 months.

London	5 % p.a.
New York	8% p.a.
Frankfurt	3% p.a.

The market rates in London for US dollars and Euro are as under:

London on New York

Spot	1.5350/90
1 month	15/18
2 months	30/35
3 months	80/85

$/£

UK (£)

$500000

3 Months

Cost = 4% p.a.

$500000 × 1.01

$505000

UK (£)

5%

£ 1663

NY ($)

8%

Frankfurt (€)

3%

London on Frankfurt

Spot	1.8260/90
1 month	60/55
2 months	95/90
3 months	145/140

€/£

1.8290

At which centre, will be investment be made & what will be the net gain (to the nearest pound) to the bank on the invested funds?

(Study Material, PM, RTP Nov – 2021 & Exam Nov - 2013)

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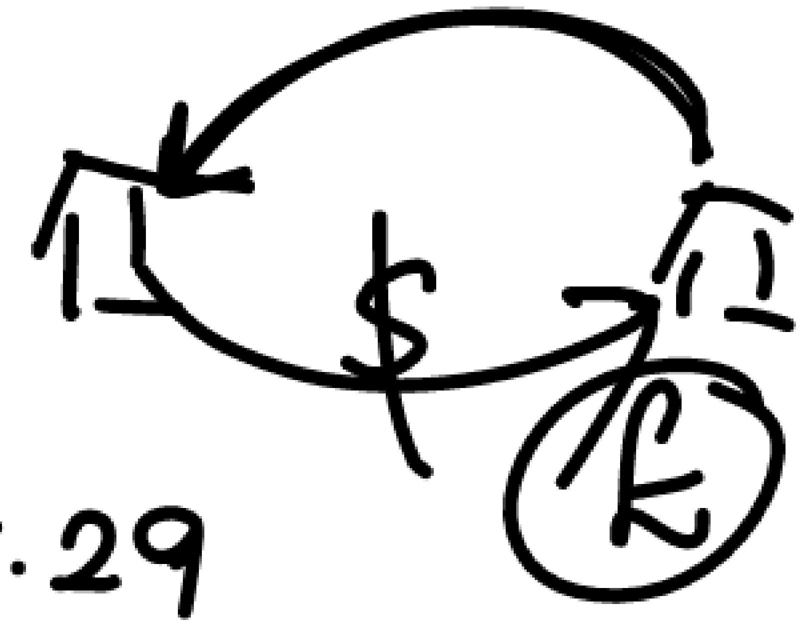
$$
\begin{array}{r}
1.8290 \\
-\ 0.0140 \\
\hline
1.8150 \\
\hline
\end{array}
$$

~~1.8430~~

Option 1 Invest in UK

- Buy £ at SR from \$ \$/£ 1.5390



$$\frac{\$500000}{1.5390} = £324886.29$$

- Invest £324886.29 in UK @ 5% p.a. for 3 Months

$$\text{Cash Inflows}(£) = £324886.29\,(1.0125) = £328947.37$$

- Buy \$505000 at 3 Months FR \$/£ = 1.5430
  $(1.5350 + 0.0080)$

$$\frac{\$505000}{1.5430} = £327284.51$$

$$\text{Gain} = £1663$$

Option 2 Investment in New York

Invest \$500000 in NY @ 8% p.a. for 3 Months

Cash Inflows (\$) $500000 \times 1.02 = \$510000$

Repayment $= \$505000$

Gain $\$5000$

Sell \$5000 at 3 Months FR $\$/£$ 1.5475

$(1.5390 + 0.0085)$

$$\frac{\$5000}{1.5475} = £3231$$

Option 3 Invest in Frankfurt

- Buy £ from \$ at SR \$/£ 1.5390

$$\frac{\$500000}{1.5390} = £324886.29$$

- Buy € from £ at SR €/£ = 1.8260

$$£324886.29 \times 1.8260 = €593242.36$$

- Invest € @ 3% p.a. for 3 Months

Cash Inflows (€) $€593242.36 \times 1.0075 = €597691.68$

- Buy £ from € at 3 Months FR €/£ = 1.8150
(1.8290 − 0.0140)

$$\frac{€597691.68}{1.8150} = £329306.71$$

- Buy \$505000 at 3 Months FR £327284.57

Gain £2022

Investment in NY is the best due to Highest Gain.

QUESTION – 114

H.W

H.W Copy

KGF Bank's Sydney branch has surplus funds of USD $ 7,00,000 for a period of 2 months. Cost of funds to the bank is 6% p.a. They propose to invest these funds in Sydney, New York or Tokyo and obtain the best yield, without any exchange risk to the bank. The Following rates of interest are available at the three centers for investment of domestic funds there for a period of 2 Months.

Sydney	7.5% p.a.
New York	8% p.a.
Tokyo	4% p.a.

The market rates in Australia for US Dollars and Yen are as under:

Sydney on New York:

Spot	0.7100/0.7300
1 Months	10/20
2 Months	25/30

Sydney on Tokyo:

Spot	79.0900/79.2000
1 Months	40/30
2 Months	55/50

At which centre, will the investment be made & what will be the net gain to the bank on the invested funds?

(Exam May-2019)

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QUESTION – 115

KGF Bank's Sydney branch has surplus of USD $ 7,00,000 for a period of 2 months. Cost of funds to the bank is 6% p.a. They propose to invest these funds in Sydney. New York or Tokyo and obtain the best yield, without any exchange risk to the bank. The following rates of interest are available at the three centers for investment of domestic funds there for a period of 2 Months.

H.W

H.W Copy

Sydney	--------------	7.5% p.a.
New York	--------------	8% p.a.
Tokyo	--------------	4% p.a.

The market rates in Australia for US Dollars and Yen are as under:

A$ $ $/A$

Sydney on New York.

Spot	0.7100/0.7300
1 Month	10/20
2 Months	25/30

Sydney on Tokyo:

Spot	79.0900/79.2000
1 Month	40/30
2 Months	55/50

At which center, will the investment be made & what will be the net gain to the bank on the invested funds?

(Exam May - 2019)

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QUESTION – 116

Suppose you are a treasurer of XYZ plc in the UK. XYZ have two overseas subsidiaries, one based in Amsterdam and one in Switzerland. The Dutch subsidiary has surplus Euros in the amount of 725,000 which it does not need for the next three months but which will be needed at the end of that period (91 days). The Swiss subsidiary has a surplus of Swiss Francs in the amount of 998,077 that, again, it will need on day 91. The XYZ plc in UK has a net balance of £75,000 that is not needed for the foreseeable future.

Given the rates below, what is the advantage of swapping Euros and Swiss Francs into Sterling?

Spot Rate	(€) £0.6858– 0.6869	£/€
91 day Pts	0.0037 0.0040	
Spot Rate(£)	CHF 2.3295– 2.3326	CHF/£
91 day Pts	0.0242 0.0228	

UK(£) £75000

Amsterdam €725000

Switzen CHF 998077

Interest rates for the Deposits

Amount of Currency	**91 Days Interest Rate % p.a.**		
	£	**€**	**CHF**
0 – 1,00,000	1	¼	0
1,00,001 – 5,00,000	2	1 ½	¼
5,00,001 – 10,00,000	4	2	½
Over 10,00,000	5.375	3	1

(Practice Manual)

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