Chapter Tests of SFM of
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SFM Test of Foreign Exchange Risk Management

Maximum Marks: 30 **Time Allowed: 1 hour**

All questions are compulsory

Q 1

(a) On 24th September, Bank A entered into forward contract with a customer for a forward sale of US $ 7,00,000, delivery 24th November at Rs. 79.6700. On the same day, it covered its position by buying forward from the market due 24th November, at the rate of Rs. 79.6550. On 24th October, the customer approaches the bank and requests for early delivery of US $. Rates prevailing in the interbank markets on that date are as under:

Spot (Rs./$)	79.5725 / 5800
November	79.3550 / 3650

Interest on outflow of funds is 16% and on inflow of funds is 12%. Flat charges for early delivery are Rs. 100. What is the amount that would be recovered from the customer on the transaction?

Note: Calculation should be made on months basis than on days basis.

(6 Marks)

(b) A Ltd. of USA has imported some chemical worth of GBP 3,64,897 from one of the U.K. suppliers. The amount is payable in six months time. The relevant spot and forward rates are:

Spot rate	USD 1.5617-1.5673
6 months' forward rate	USD 1.5455 –1.5609

The borrowing rates in U.K. and U.S. are 6% and 7% respectively and the deposit rates are 4.5% and 5.5% respectively.

Currency options are available under which one option contract is for GBP 12,500. The option premium for GBP at a strike price of USD 1.56/GBP is USD 0.036 (call option) and USD 0.096 (put option) for 6 months period. In case of currency options, 100% hedge is not required.

The company has 3 choices:

(i) Forward cover
(ii) Money market cover, and
(iii) Currency option

Which of the alternatives is preferable by the company?

(8 Marks)

(c) XYZ Bank, Amsterdam, wants to purchase Rs. 25 million against £ for funding their Nostro account and they have credited LORO account with Bank of London, London.

Calculate the amount of £'s credited. Ongoing inter-bank rates are per $, Rs. 79.3625/3700 & per £, $ 1.5260/70.

(6 Marks)

Q 2

(a) An Indian Company has exported goods worth $10,00,000; which is receivable in 3-months time. Expected spot rate after 3-months in cash market and futures market is Rs.81.30 and Rs.81.35 per $ respectively. Calculations shown by the Indian company reveals that cash inflow under forward contract shall be Rs.812.5 lakhs and Rs.800 lakhs under currency futures. What is the contracted forward rate and futures rate?

(4 Marks)

(b) Aravalli Wellbeing has imported 5,000 bottles of shampoo at landed cost in Mumbai, of US $ 20 each. The company has the choice for paying for the goods immediately or in 3 months' time. It has a clean overdraft limited where 12% p.a. rate of interest is charged.

Calculate which of the following method would be cheaper to Aravalli Wellbeing.

(i) Pay in 3 months' time with interest @ 6% p.a. and cover risk forward for 3 months.

(ii) Settle now at a current spot rate and pay interest of the overdraft for 3 months.

The rates are as follows:

Mumbai Rs. /$ spot: 79.25-79.55
3 months swap points: 35/25

(6 Marks)

Question Paper prepared by CA. Ashish Lalaji

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