

Lecture: 15 Exchange Rate Arithmetic: Forward Rates

Short Questions:

1. Suppose USDJPY Spot rate is USD110.25/USD. How much is one pip for 100,000 JPY and how much one pip worth 100,000 USD?
2. The spot USDINR bid and ask rate is given as 47.6730-47.6754. If the 3 month-bid-ask in points are 55-65, then what would be INRUSD 3-month rate in outright quotations. If the bid-ask points reverses i.e, 65-55, then would be INRUSD 3 month rate in outright quotations.
3. A Canadian Exporter exporting goods to USA will receive USD100,000 after 3 months. A bank quotes 3-month USDCAD forward bid –ask rate as (1.2302 – 1.2315). How much the Canadian exporter will receive if he enters the forward contract?
4. Spot rate USDINR is as follows: If the 3 month forward bid-ask point is 105-123, then what will be the 3-month outright forward quotations? If the 3 month forward bid-ask point is 123-105,what would be the outright forward quotations.
5. Suppose spot USD/INR is 46.75 and 1 year forward rate 47.66. Find out the % appreciation/depreciation of USD as well as INR. Can you conclude that % appreciation and depreciation will be same for both INR and USD?
6. The following rates are given. If a bank wants to quote a forward rate to a company wanting to take a forward cover on October 27th, what would be the bid-ask rate in outright form?

Cash/Swap rates in points			
USDINR	Maturity Date	Bid Rate	Ask Rate
Spot	July 14th	47.0725	47.0745
3 month	October 14th	90	97
4 months	November 14th	100	109

- 7. Suppose spot USD/INR is 46.75 and 1 year US interest rate is 5% while it is 11% in India. A bank is quoting 1 year forward rate as 43.35. Does this give rise to an arbitrage opportunity? If so, how can a trader benefit from this opportunity?**

- 8. A bank is quoting a spot rate USD/INR as 45.1560. Interest rates prevailing in the USA are 3.5% and in India are 9%. Calculate what would be the 1 year USD/INR forward swap points and what would be the 1 year USD/INR outright forward quotations?**

- 9. Bank A is quoting a USD/INR rate of 45.1725 and JPY/USD 0.0089. Bank B is quoting a JPY/INR rate of 0.4050. Find out the cross rate from Bank A's point of view and check whether any arbitrage opportunity exists or not? If it exists, show how the arbitrage profit can be made.**