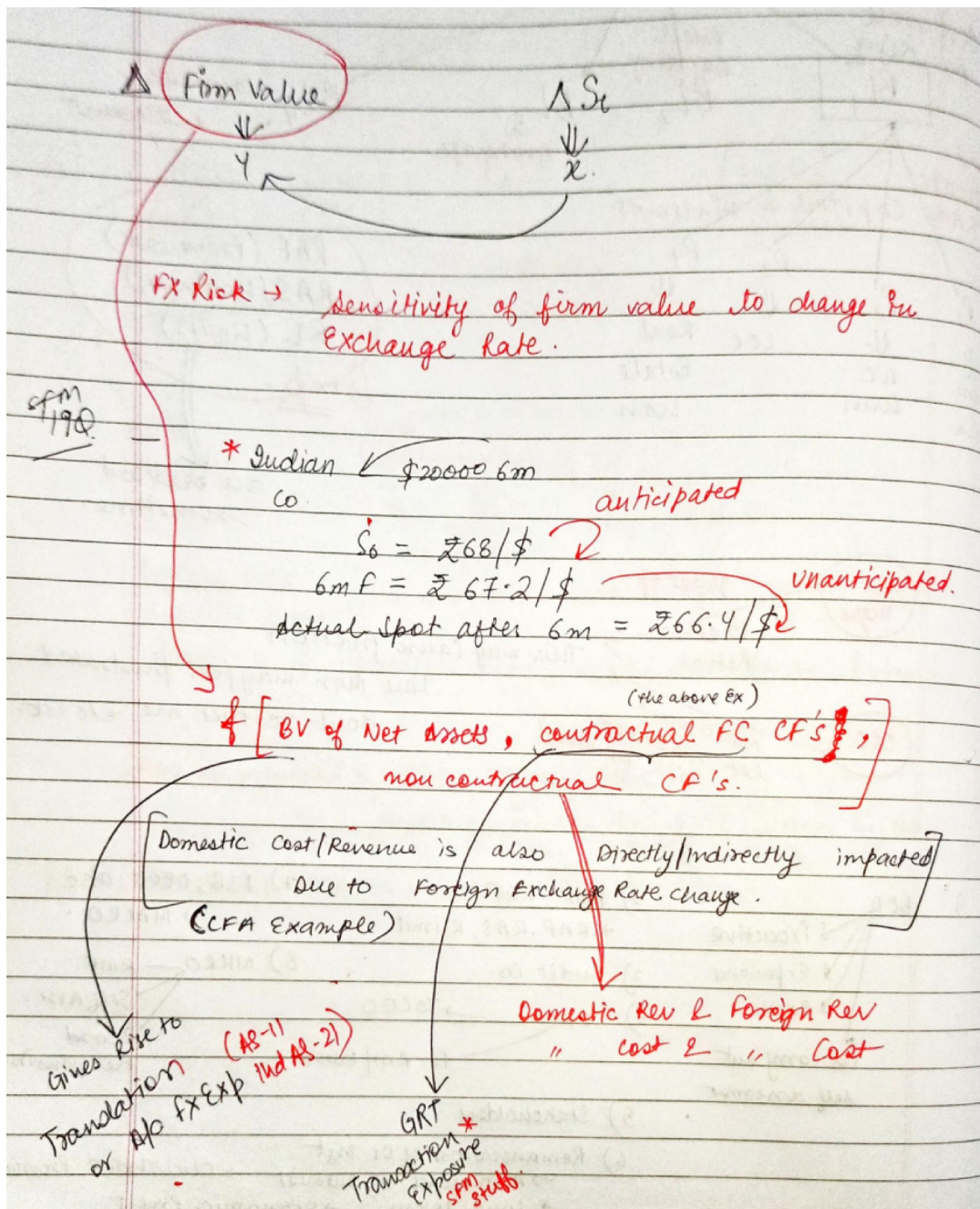


Fx Risk Part of SFM

Fx Risk (Part of SFM)



Non Contractual CF's

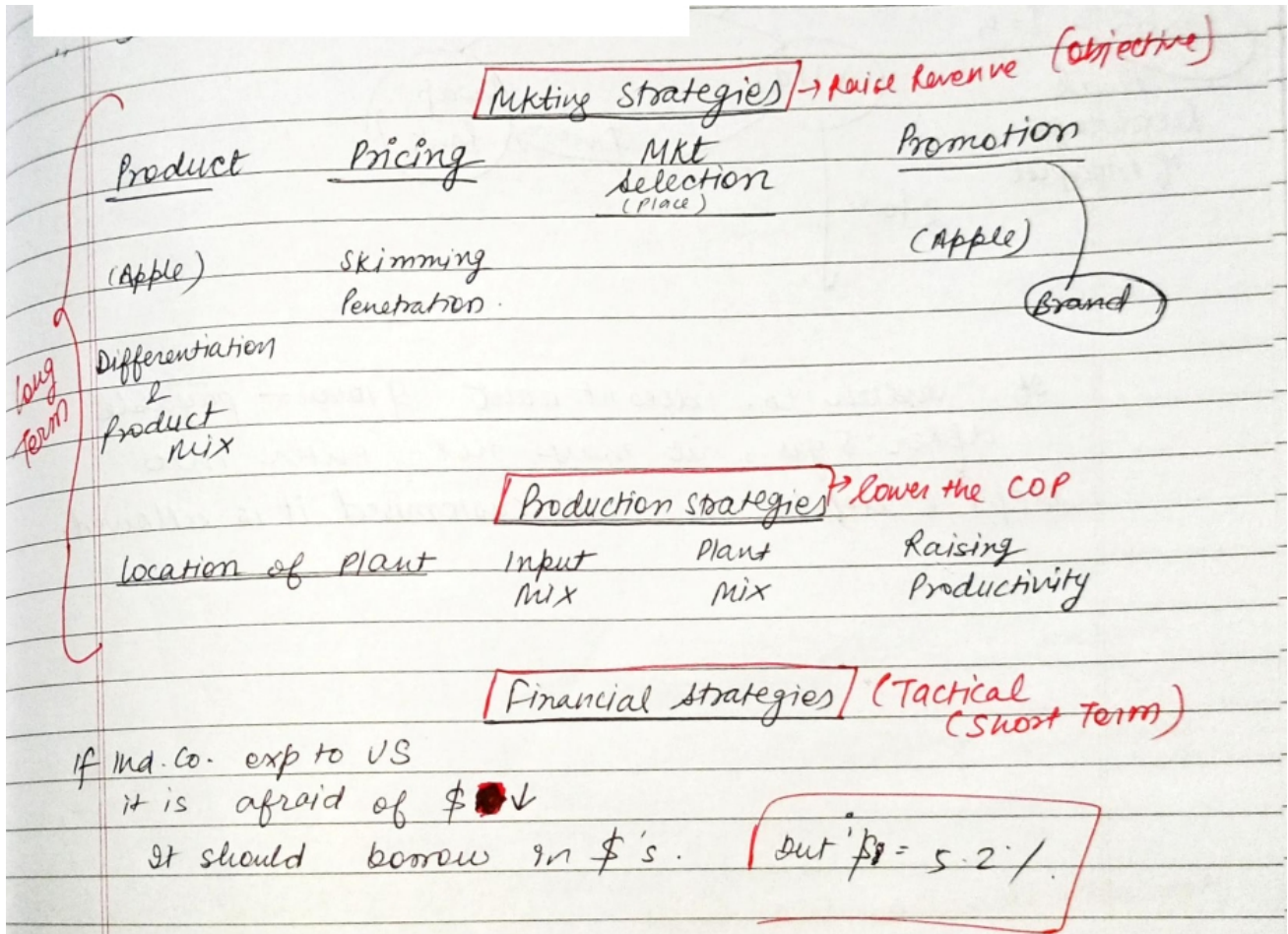
GRT

Economic OR Operating Exposure

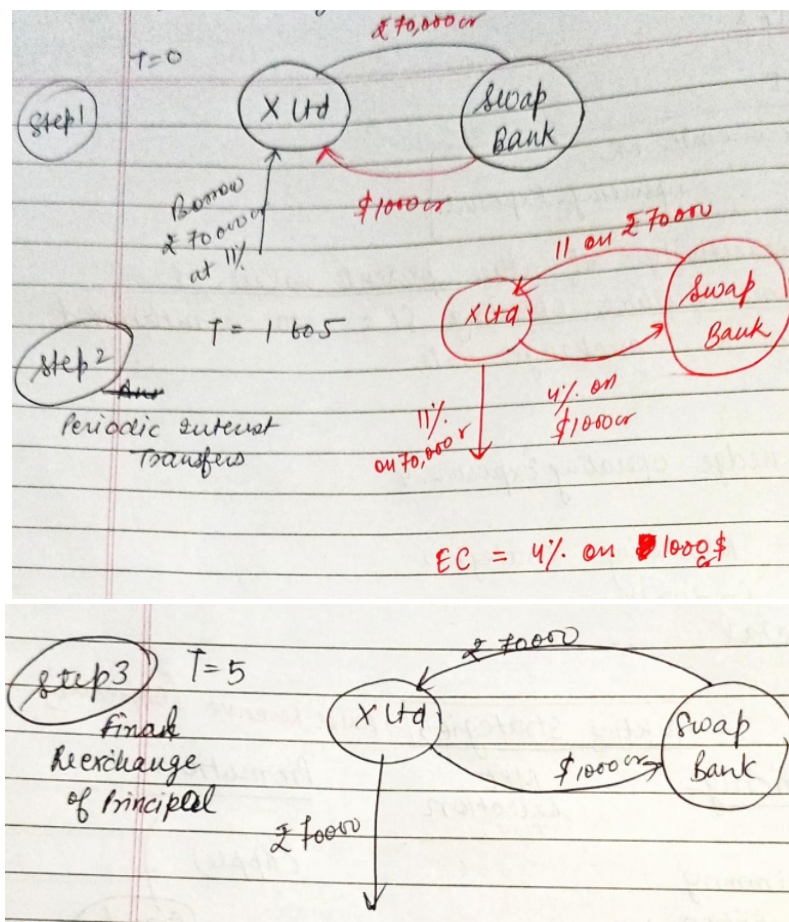
Definition : Sensitivity of the present value of a firms future operating CF's to unanticipated changes in exchange rate.

How to hedge operating Exposure?

- Strategy 1 :** Marketing strategies
- Strategy 2 :** Production strategies
- Strategy 3 :** Financial strategies



Initial Exchange of Principle.



If Indian Co. does not want \$ 1000 cr payable after 5 yrs., it may not enter into step 1 & step 3. OTC Customised it is allowed.

Forward Contract

It is a contract to buy/sell a certain amount of foreign currency against home currency at some future date at an agreed upon rate.

If X Ltd contracts to buy \$ 40 cr. after 1 year by paying ₹7700 cr.

Question 1.

Is it a forwarded contract?

Answer : Yes

Question 2.

If yes , what is the forward rate?

Answer : ₹ 192.5/\$

Question 3.

Calculate F_1, F_2, F_5 as per IRP

Answer :

$$\frac{F}{S} = \frac{1+i_{\text{₹}}}{1+i_{\$}}$$

$$\frac{F_1}{70} = \frac{1-11}{1.04} \Rightarrow F_1 = 74.711$$

$$F_2 = 79.74$$

$$F_3 = 85.11$$

$$F_4 = 90.84$$

$$F_5 = 96.95$$

"Currency swap is a portfolio of forward contracts."

↓
Off market

Question 4.3

Principle exchange or not?

May be **"Modern"** – It does not takes place.