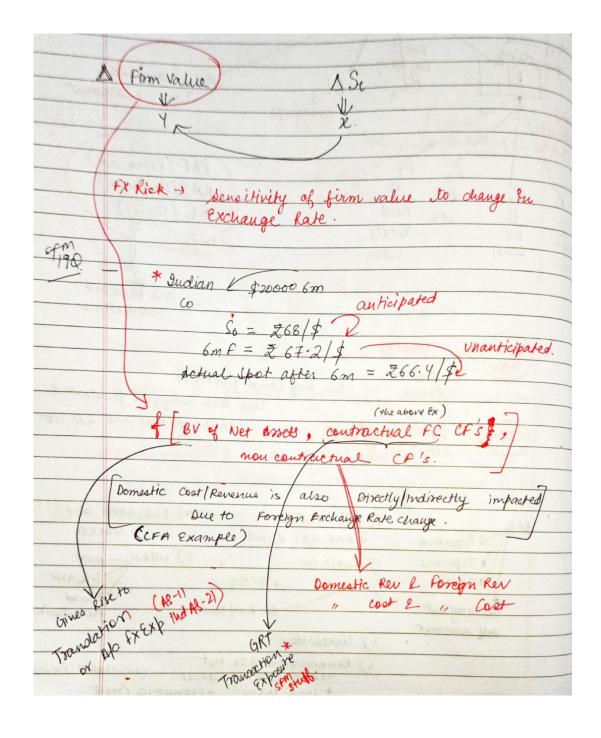
# Fx Risk Part of SFM

## 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.

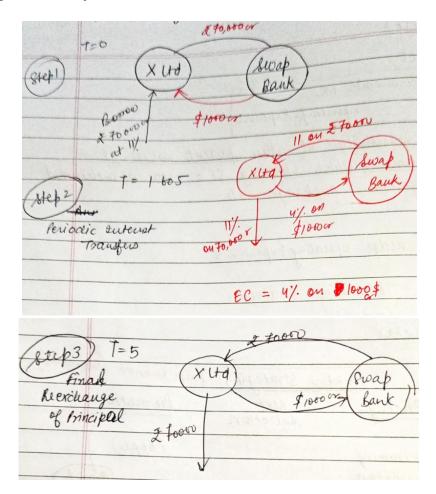
## How to hedge operating Exposure?

Strategy 1: Marketing strategiesStrategy 2: Production strategiesStrategy 3: Financial strategies

			Promotion
freduct	Pricing_	MKt Selection	Promotion
(Apple)	skimming lenetration	(pina)	(Apple) (Brand)
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, judy.		21- 1	Plower the COP Raising
location o	g plant inp mi	x mix	Productivity
if Ind. Co. exp	b to US	nancial Strategie	(Short term)
it is afr	aid of \$ \$\ldots	n\$'s. Du	t'\$0 = 5.2./.



## **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:**

$$\frac{\mathsf{F}}{\mathsf{S}} = \frac{1+\mathsf{i}}{1+\mathsf{i}}$$

$$\frac{\textbf{F}_{\!_{1}}}{70}\!=\!\frac{1\!-\!11}{1.04}\!\int\!\textbf{F}_{\!_{1}}=74.711$$

$$F_2 = 79.74$$

$$F_3 = 85.11$$

$$F_4 = 90.84$$

$$F_5 = 96.95$$

"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.