**NMIMS**

**international finance**

**Internal Assignment for June 2020 Examination**

**1. CQS plc is a UK company that sells goods solely within UK. CQS plc has recently tried a foreign supplier in Netherland for the first time and need to pay €250,000 to the supplier in six months’ time. You as financial manager are concerned that the cost of these supplies may rise in Pound Sterling terms and has decided to hedge the currency risk of this account payable. The following information has been provided by the company’s bank:**

**Spot rate (€ per £): 1·998 ± 0·002**

**Six months’ forward rate (€ per £): 1·979 ± 0·004**

**Money market rates available to CQS plc:**

**Borrowing Deposit**

**One-year Pound Sterling interest rates: 6·1% 5·4%**

**One-year Euro interest rates: 4·0% 3·5%**

**Assuming CQS plc has no surplus cash at the present time you are required to evaluate whether a money market hedge, a forward market hedge or a lead payment should be used to hedge the foreign account payable.**

**Answer**: CQS plc should place sufficient Euros on deposit now so that, with accumulated interest, the six-month liability of €250,000 can be met. Since the company has no surplus cash at the present time, the cost of these Euros must be met by a short-term Pound Sterling loan.

Six-month Euro deposit rate = 3·5/2

= 1·75%

Current spot

**2. On 30th June 2009 when a forward contract matured for execution you are asked by an importer customer to extend the validity of the forward sale contract for US$ 10,000 for a further period of three months.**

**Contracted Rate US$1 = Rs.41.87**

**The US Dollar quoted on 30.6.2009**

**Spot Rs. 40.4800/Rs. 40.4900**

**Premium July 0.1100/0.1300**

**Premium August 0.2300/0.2500**

**Premium September 0.3500/0.3750**

**Calculate the cost for your customer in respect of the extension of the forward contract.**

**Rupee values to be rounded off to the nearest Rupee.**

**Margin 0.080% for Buying Rate**

**Margin 0.25% for Selling Rate**

**Answer**: This extension of forward Contract involves following steps

* Cancel the contract at TT buying rate.
* Rebook the contract for three months at the current rate of exchange.

Accordingly

Step 1: Cancel the contract at TT buying rate on 30.6.2009

Rs.

Spot US$ 1 40.4800

Less: Margin 0.080% 0.0324

40.4476

**3. Wenden Co is a Dutch-based company which has the following expected transactions.**

**One month: Expected receipt of £2,40,000**

**One month: Expected payment of £1,40,000**

**Three months: Expected receipts of £3,00,000**

**The finance manager has collected the following information:**

**Spot rate (£ per €): 1.7820 ± 0.0002**

**One month forward rate (£ per €): 1.7829 ± 0.0003**

**Three months forward rate (£ per €): 1.7846 ± 0.0004**

**Money market rates for Wenden Co:**

**Borrowing Deposit**

**One year Euro interest rate: 4.9% 4.6%**

**One year Sterling interest rate: 5.4% 5.1%**

**Assume that it is now 1 April.**

**Required:**

**a. Calculate the expected Euro receipts in one month and in three months using the forward market.**

**b. Calculate the expected Euro receipts in three months using a money-market hedge and recommend whether a forward market hedge or a money market hedge should be used.**

**Answer**: (a) **Forward market evaluation**

Net receipt in 1 month = £2,40,000 – £1,40,000 = £1,00,000

WendenCo needs to sell Sterlings at an exchange rate of (1.7829 + 0.0003)= £1.7832 per €

Euro value of net receipt = 1,00,000/ 1.7832 = €56,079

Receipt in 3 months = £3,00,000

Wenden Co