TYBMS(FINANCE) INTERNATIONAL FINANCE SEM 6

CH 6. Interest Rate Arbitrage

From the following data decide on the best alternative for borrowing INR 5 million for a temporary period of six months on a risk–free basis.

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<tr>
<th>Currency</th>
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<td>INR</td>
<td>5.75-6.00% p.a.</td>
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<td>EUR/INR</td>
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<td>GDP/INR</td>
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<td>5.25-5.5% p.a.</td>
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Net liability when borrowing in INR:

\[ (5000000(1+6/100*6/12))-5000000=INR150000 \]

\[ P(1+RT)-P \]

Net liability when borrowing in USD:

\[ ((5000000/48.8830)*(1+4.5/100*6/12)*49.2360)-5000000 = INR 149419 \] \( \text{SB=SPOT BID} \) \( \text{FA= FORWARD ASK} \)

\[ ((P/SB)*(1+RT)*FA) - P \]

Find Net liability when borrowing in EUR and GDP.

From the following data decide on the best alternative for Investing INR 5 million for a temporary period of six months on a risk–free basis.

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Net return when investing in INR:

\[ (5000000(1+5.75/100*6/12))-5000000=INR 143750 \]

\[ P(1+RT)-P \]

Net return when investing in USD:
Find Net return when investing in EUR and GDP.

chp 7 Currency & Interest Rate features

Sums on Interest Rate future

SPOT USD/SEK 6.4950

USD interest rate = 0.75%p.a.

SEK interest rate = 1.5% p.a.

Calculate three month forward rate USD/SEK rate.

\[
F = S \cdot \frac{(1 + \frac{R_v}{100} \cdot \frac{n}{12})}{(1 + \frac{R_b}{100} \cdot \frac{n}{12})}
\]

\[
= 6.4950 \cdot \frac{(1 + \frac{1.5}{100} \cdot \frac{3}{12})}{(1 + \frac{0.75}{100} \cdot \frac{3}{12})}
\]

\[
= 6.5072 \text{ (3 month forward rate)}
\]

Solve following sums :

1. 6 month forward EUR/CAD 1.3493
   - EUR interest rate = 1.25%p.a.
   - CAD interest rate = 1.75%p.a.
   - Calculate spot EUR/CAD rate.
2. Spot 1EUR = USD1.3115
   - 60 days forward 1 EUR = 1.3104
   - USD interest rate = 0.50% p.a.
   - Calculate EUR interest rate.
3. Spot CAD 1.00297 per USD
   - 73 days forward CAD 1.0307 per USD
   - USD interest rate = 0.75% p.a.
   - Calculate CAD interest rate.