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REVIEW QUESTIONS FOREIGN EXCHANGE RATE

QUESTION 1

On the basis of the rates given below, quote rates to customer who wishes to:

- a. sell Australian dollar 3 months forward fixed
- b. buy Sterling pound 3 months forward option
- c. buy Deutsche marks 1 month forward option
- d. sell Sterling pound 1 month forward option
- e. sell Australian dollar 1 month forward fixed
- f. buy Australian dollar 3 months forward option
- g. sell Sterling pound 3 months forward option
- h. buy Sterling pound 1 month forward option.
- i. buy Deutsche marks 3 months forward fixed
- j. buy Deutsche marks 3 months forward option
- k. buy Australian dollar 1 month forward option
- l. sell Deutsche marks 1 month forward option

	Spot	1 month forward
Australian \$	1.8500-1.8140	0.0060-0.0050 pm
Sterling pound	4.5070-4.4430	0.0060-0.0065 dis
Deutsche marks	1.7130-1.6790	0.0020-0.0015 pm
	3 months forward	
Australian \$	0.0130-0.0120 pm	
Sterling pound	0.0135-0.0140 dis	
Deutsche marks	0.0045-0.0035	



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QUESTION 2

Using the rates below quote the rates at which the bank would:

- buy from a customer US dollars and Canadian dollars 3 months forward fixed, and
- sell to a customer Japanese yen and Hong Kong dollars 1 month forward option.

Malaysian ringgit per unit of foreign currency

	Spot	1 month forward
US dollar	2.5210-2.5030	0.0045-0.0040 pm
Canadian dollar	2.0800-2.0480	0.0025-0.0030 dis
	3 months forward	
US dollar	0.0095-0.0080 pm	
Canadian dollar	0.0045-0.0048 dis	

Malaysian ringgit per 100 units of foreign currency

	Spot	1 month forward
Japanese Yen	2.0420-2.0010	0.0085-0.0070 pm
Hong Kong dollar	33.2000-31.9000	0.005-0.0028 dis
	3 months forward	
Japanese yen	0.00130-0.0090 pm	
HongKong dollar	0.0038-0.0030 dis	

QUESTION 3

What rate will the bank quote to the customer in Malaysian ringgit (RM) when the rates are as follows:

	Kuala Lumpur US dollar/ringgit	Frankfurt US dollar/DMs
Spot	2.5180-2.4980	1.4438-1.4625
1 month	0.0090-0.0080 pm	0.0051-0.0049 pm
2 months	0.0165-0.0150 pm	0.0104-0.0101 pm
3 months	0.0235-0.0215 pm	0.0156-0.0151 pm



	London . Sterling/US dollar
spot	1.7403-1.7150
1 month	0.0025-0.0023 pm
2 months	0.0050-0.0047 pm
3 months	0.0080-0.0078 pm

- a. bank sells Deutsche marks spot
- b. bank sells Deutsche marks 2 months forward fixed
- c. bank buys Sterling pound 1 month forward option
- d. customer buys Sterling pound 3 months forward option
- e. customer sells Sterling pound 3 months fixed
- f. bank buys Deutsche marks 2 months forward fixed
- g. bank sells Sterling pound 1 month forward option
- h. customer sells Deutsche marks 3 months forward fixed

QUESTION 4

From the rates quoted below, determine the total ringgit due to a trader who buys goods value DM19,510 CIF Kuala Lumpur, paying for them at once and sells them on 3 months credit terms against his invoice for DM21,422 Frankfurt, and covering his exchange risk forward.

DM spot	1.7130-1.6790
1 month forward	0.0030-0.0020 pm
2 months forward	0.0050-0.0040 pm
3 months forward	0.0110-0.0100 pm

QUESTION 5

On October 1, your customer places an order to purchase 48 machines from manufacturer in United States at a cost of US\$ 6000 each. Shipment is between the months of November and December. The payment terms are 30% on placing the order, and the balance to be remitted to the seller on receipt of cable advice on the shipment of the machines.

Your customer instructs you to make the immediate payment, and to cover balance forward. The cable advice on shipment of the - machine is received on December 5.

Using the rates quoted below, show the amount in ringgit payable by the customer



US Dollar	
October 1 spot	2.5180-2.4980
1 month forward	0.0035-0.0029 pm
2 months forward	0.0065-0.0060 pm
3 months forward	0.0130-0.0125 pm

QUESTION 6

An importer buys some binoculars from a supplier in Denmark at a total cost of Danish kroner 25,000. A 50% payment is due now and the balance is payable on the arrival of the goods, which are scheduled for May or June delivery. On May 1, the importer requests your bank to remit the initial payment to the supplier immediately, and arrange the forward cover for the balance. Using the rates below calculate the total cost in ringgit to the importer.

Danish kr100

May 1 spot	46.0000-42.8000
1 month forward	par-par
2 months forward	1.2000-1.0000pm
3 months forward	1.5000-1.2000pm

QUESTION 7

An exporter receives an order from Germany for the supply of 1200 radios. The CIF price acceptable to the buyer is either DM80 or US\$55 per unit. The shipment is to be made in 60 days and payment will be arranged by the buyer by TT immediately on receipt of a cable advice of shipment. The exporter asks for your assistance to select the currency and arrange forward cover immediately.

Based on the rates below, calculate the ringgit to be received by the exporter either against the US dollar or Deutsche marks. Which currency provides more ringgit to the exporter?

US\$ spot	2.5180-2.4980
1 month	0.0012-0.0008 pm
2 months	0.0015-0.0010 pm
3 months	0.0021-0.0015 pm
DM spot	1.7440-1.7080
1 month	0.0015-0.0015 dis
2 months	0.0018-0.0010 dis
3 months	0.0620-0.0022 dis



QUESTION 8

A company wants to import 5000 car batteries from a supplier in the United States at US\$20 each. It has a choice of paying for the items immediately or in 3 months time. The company has a clean overdraft with the bank at 18% p.a. interest rate. Calculate which of the following methods would be cheaper to the company:

1. pay in 3 months time with interest at 15% p.a. and cover the exchange risk forward 3 months, or
2. settle now at the current spot rate and pay interest on the overdraft for 3 months.

The exchange rates are as follows:

US dollar spot	2.5180-2.4980
3 months forward	0.0150-0.0125 pm

QUESTION 9

An engineering company has the choice of buying a special machine from the United States at US\$2,000 from Denmark Dkr 10,800 or from Germany at DM5,000. The US exporter will allow 1-month credit from the date of shipment, the Danish exporter will allow 2 month credit and the German exporter a 3 month credit.

Taking the credit period into account, and assuming the company covers forward on shipment date and buys at the least cost, from which country will the company import the machine?

	US dollar	Danish kroner
Spot	2.5090-2.4900	0.4720-0.4390
1 month	0.0050-0.0037 pm	0.0010-0.0015 dis
2 month	0.0062-0.0050 pm	0.0020-0.0025 dis
3 month	0.0075-0.0065 pm	0.0035-0.0040 dis
	Deutsche marks	
spot	1.7970-1.7610	
1 month	0.0045-0.0035 pm	
2 month	0.0047-0.0038 pm	
3 month	0.0055-0.0044 pm	

QUESTION 10

A manufacturing company contracts to sell machinery to a buyer in the United States for US\$260,000. 30 percent is to be paid on shipment which is due during July, and the



balance in equal installments one month and two months after shipment. On July 1, the company asks your bank to provide cover for those transactions.

During the early part of September, one of the machines develops a major fault and is not replaced. The company agrees to reduce the final payment by US\$4000, and is received on September 17.

On the basis of the rates quoted below, calculate the total ringgit received by the company.

US dollar	
July 1 spot	2.5210-2.5030
1 month forward	0.0018-0.0016pm
2 month forward	0.0019-0.0017 pm
3 month forward	0.0020-0.0018pm
September 17 spot	2.5290-2.5085

QUESTION 11

On March 1, a contract is made for your customer to buy 700 tons of beef from Australia at A\$7250 per ton. Delivery is arranged for 300 tons during March and 400 tons during April with payment one month after shipment. Forward cover is arranged on March 1.

Because the quality of the beef shipped during April was not up to the standard, a discount of A\$246 per ton was agreed. The March shipment was paid promptly and the payment for the April shipment was made at the discounted price on May 18.

Using the rates below, calculate the total amount in ringgit paid by the customer

March 1 spot	1.8170-1.7780
1 month forward	0.0030-0.0020 pm
2 months forward	0.0070-0.0040 pm
3 months forward	0.0110-0.0060 pm
May 18 spot	1.8500-1.8160

CLOSE OUT

QUESTION 12

On March 15, an importer places an order for two machines from the United States at prices of US\$105,000 and US\$130,500 respectively. Shipment of the two machines is within one month, and payment is due immediately on the cable advice of the shipment. The importer immediately covers forward.



The first machine is shipped on the April 10, but because of fire the shipment of the second machine is delayed by between three weeks and one month.

On maturity of forward contract, the importer arranges an extension of the unused balance of the contract at the new rates. The second machine is eventually shipped on May 5.

Using the rates given below, calculate the total cost to the importer.

	March 15	April 15
Spot	2.5080-2.4880	2.5150-2.4940
1 month	0.0055-0.0040 pm	0.0056-0.0038 pm

THE END