# EXCHANGE ARITHMETIC
# &
# INTER BANK DEALS

**DEPARTMENT OF ECONOMICS**

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# Ready Exchange Rate

- Ready Exchange rate- spot rate

Ready Exchange Rate

1. Ready Exchange Rate for trade transactions
2. Ready Exchange Rate for non trade transactions

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

- **Trading – purchase & Sale**
- **Transactions from banks view point**
- **Item traded – foreign currency**

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

- **Exchange Quotations**
  - **Direct Quotation – (Home Currency Quotation)Buy low sell high**
  - **Indirect Quotation- (Foreign Currency Quotation) Buy high sell low**
- **Merchant Rates**

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

- **Exchange margin-**
- **Bank cannot quote base rate- gives no profit**
- **Exchange margin- to cover administrative cost, exchange fluctuation & profit to the bank**

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

- **Fineness of Quotation- Exchange rate is quoted up to 4 decimals in multiples of 0.0025**
- **Eg- If 1$= ₹ 68.12446  can be rounded off to 1$= ₹ 68.1250**
- **Example of Valid Quotations**

✓ **USD1 = ₹ 76.1825   GBP1 = ₹94.8225   EURO 1= ₹83.3000   JPY 100 = ₹70.3125**

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

- **Buying Rates- purchase transaction of bank**
- **Transaction may be immediate or delayed- Demand bill or usance bill**

**Two types of Buying** rates-on the basis of time involved for the realisation of foreign exchange transaction

1. **TT buying rates**
2. **Bill buying rates**

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

1. TT buying rates- applied for immediate realisation of foreign exchange

- Nostro account is already credited
- Calculated by deducting interbank buying rate & adding exchange margin
- TT rates applied for-
  - payment of DD, MT, TT
  - Foreign bills
  - Cancellation of foreign exchange sold earlier

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

TT buying rates

Rupee / Dollar market spot buying rate ₹……

Less: Exchange margin = ₹…..

TT buying rate = ₹……

Rounded off to the nearest multiple of the 0.0025

**Note:**

- **Dollar is bought & sold**
- **Rupee / Dollar to indicate so many rupees per dollar**

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

Eg- On 15th September UCO Bank received a mail transfer from its New York correspondent for USD 5000, payable to its customer. Its account with correspondent bank has been credited with the amount of the mail transfer in reimbursement.

Assuming US dollar/ Rupee are quoted in local interbank market as under:

| | |
|---|---|
| Spot | $ 1= ₹62.2500/2700 |
| Spot/ October | 2200/2300 |

Calculate the exchange rate & Rupee amount payable to the customer bearing in mind that

1)Bank requires exchange margin of 0.080% to be loaded in the rate

2) Rupee equivalent should be nearest to the whole rupee

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

**Solution: TT buying rate is applicable, rate quoted to customer ₹62.2500**

**Dollar/ Rupee market spot buying rate = ₹62.2500**

**Less: Exchange margin at 0.08% = ₹0.0498**

**= ₹ 62.2002**

**Rounded off rate quoted to the customer ₹62.2000 per dollar**

**Amount payable to the customer for USD 5000 at the rate of INR 62.2000 per dollar is 3,11,000**

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

**2.** Bill buying rate- applied for Usance bills

- Due date includes- transit period and usance period
- Forward margin –premium or discount

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

| | |
|---|---|
| Bill buying rates | |
| Dollar/Rupee market spot buying rate | ₹…… |
| Add: Forward Premium | = + ₹….. |
| ( For transit & usance; rounded off to the lower month) | |
| OR | |
| Less: Forward discount | |
| ( For transit & usance; rounded off to the higher month) | = - ₹….. |
| Less: Exchange margin | = ₹…… |
| Bill buying rate | = ₹…… |
| Rounded off to the nearest multiple of the 0.0025 | = ₹…… |

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

- **Selling Rates-** Transaction on the basis of handling of documents by bank

Two types of Selling Rates-

1. **TT Selling rates-** do not involve handling of documents by bank

- issue of DD, MT, TT, cancellation of foreign exchange bought earlier

2. **Bill Selling rates-** involves handling of documents by bank

- payment against import bills

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

**TT and Bill Selling**

| | |
|---|---|
| Dollar/Rupee market spot selling rate | ₹…… |
| Add: Exchange margin for TT selling rate | = + ₹….. |
| TT selling rate | ₹…… |
| Add: Exchange margin for Bill selling rate | = + ₹….. |
| Bill selling rate | = ₹…… |
| Rounded off to the nearest multiple of the 0.0025 | = ₹…… |

# 1. READY EXCHANGE RATE FOR TRADE TRANSACTIONS

## Cross Rates

Eg- suppose news paper quotes ₹ 62.00- 62.20 / $1

Canadian $ 1.26- 1.28 /$1

To exchange Canadian $ and ₹ common currency $(USD) is used

Buying rate of Canadian $ in India= buying ₹for USD at ₹ 62.00 & selling Canadian $ for USD 1.28

**Buying rate=** ₹62.00/ 1$X 1$/C$ 1.28 = 48.43

Selling rate of Canadian $ in India= selling ₹for USD at ₹ 62.20 & then buying Canadian $ for USD 1.26

**Selling rate**= 62.20/ $1 X $1/ C$ 1.26 = 49.36

**Combining** ₹48.37- 49.36

# 2. READY RATES FOR NON-TRADE TRANSACTIONS

a) **Issue & encashment of foreign travellers cheques**

b) **Purchase of foreign currency notes & coins**

c) **Exchange rate for clean instruments**

# Forward Exchange Contracts

- ✓ Technique of hedging
- ✓ Agreement between bank & bank or bank & customer
- ✓ Protects importer or exporter against foreign exchange risk
- ➢ Fixed & option forward contracts

# Inter Bank Deals

1. **Cover deals-** purchase & sale of foreign currency to acquire or dispose off foreign exchange required or acquired
2. **Swap deals-** buying & selling of foreign currency simultaneously for different maturities
3. **Arbitrage operations-** buy from monetary centre where it is cheap for immediate resale in monetary centre where it is expensive

# Types of Arbitrage

1. Two Point Arbitrage
2. Three point arbitrage
3. Covered interest arbitrage
4. Uncovered interest arbitrage