



International Finance

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PARTICIPANTS IN THE FOREIGN EXCHANGE MARKET

A. Participants at 2 Levels

1. Wholesale Level (95%)
 - major banks
2. Retail Level
 - business customers

B. Two Types of Currency Markets

1. Spot Market:
 - immediate transaction
 - recorded by 2nd business day
2. Forward Market:
 - transactions take place at a specified future date



Participants by Market

1. Spot Market
 - a. commercial banks
 - b. brokers
 - c. customers of commercial and central banks
2. Forward Market
 - a. arbitrageurs
 - b. traders
 - c. hedgers
 - d. speculators

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2. For nonbank customers:

Direct quote

Gives the **home currency** price of one unit of **foreign currency**.

EXAMPLE: Rs.50/\$

Indirect quote

Gives the **foreign currency** price of one unit of **Home currency**.

EXAMPLE: \$0.02/Re.



THE FORWARD MARKET

A. Definition of a Forward Contract

- An agreement between a bank and a customer to deliver a specified amount of currency against another currency at a specified future date and at a fixed exchange rate.
- B. Purpose of a Forward:

Hedging: The act of reducing exchange rate risk.



Forward Rate Quotations

Two Methods:

- a. Outright Rate: quoted to commercial customers.

For e.g 41-41.80

- b. Swap Rate: quoted in the interbank market as a discount or premium.

For e.g 41-41.80

Swap point:- 0.10-0.08 (Discount) Rate{40.90-41.72}

Swap point:- 0.10-0.15 (Premium) {41.10-41.95}





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