

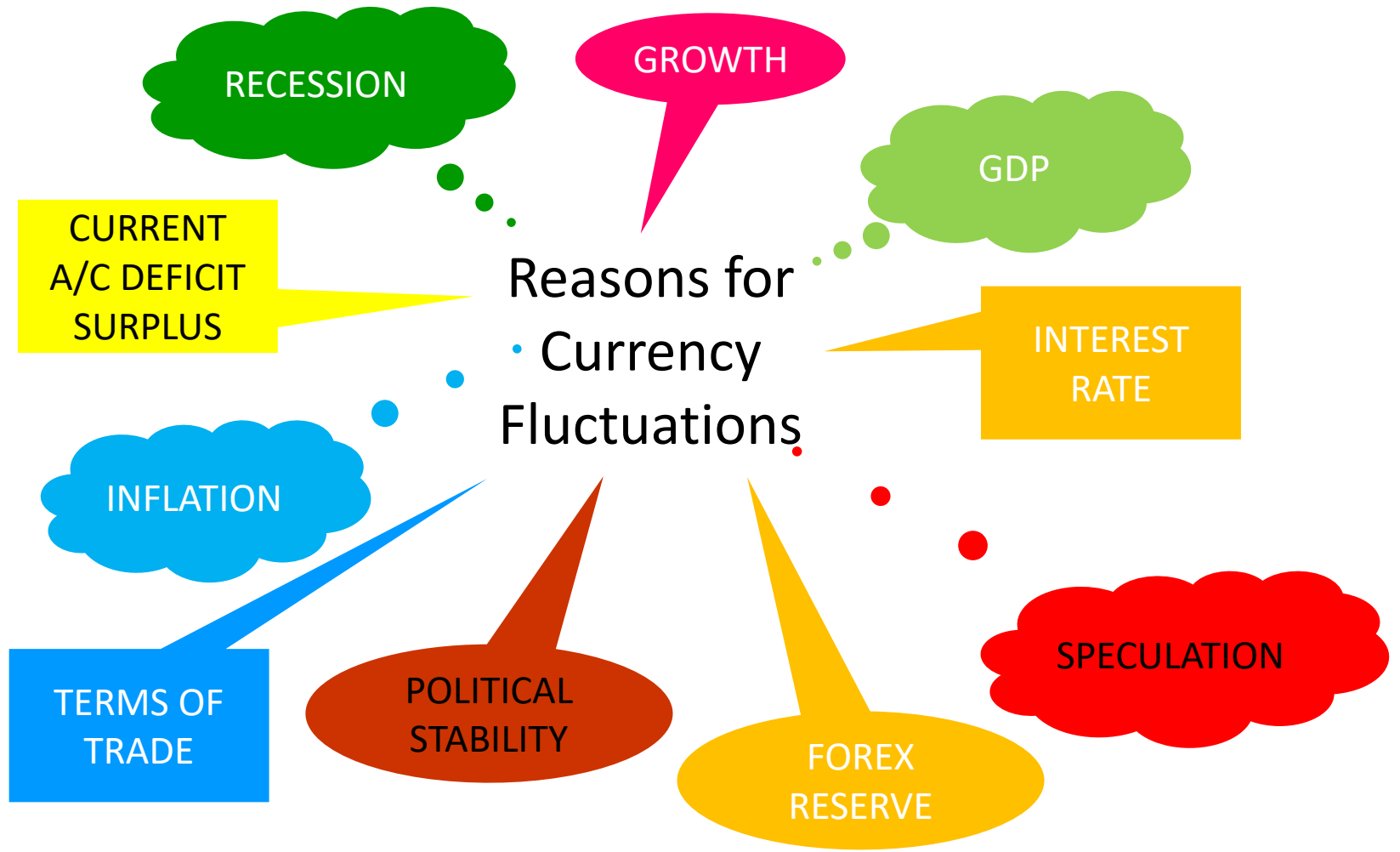
Foreign Exchange



**Buying / Selling of currency
of country A with the
currency of country B**



**Ratio of currency A vs
currency B at the time of
transaction**





Demand & Supply – Ex Russia



Demand & Supply – Ex Russia



Size of Forex Market

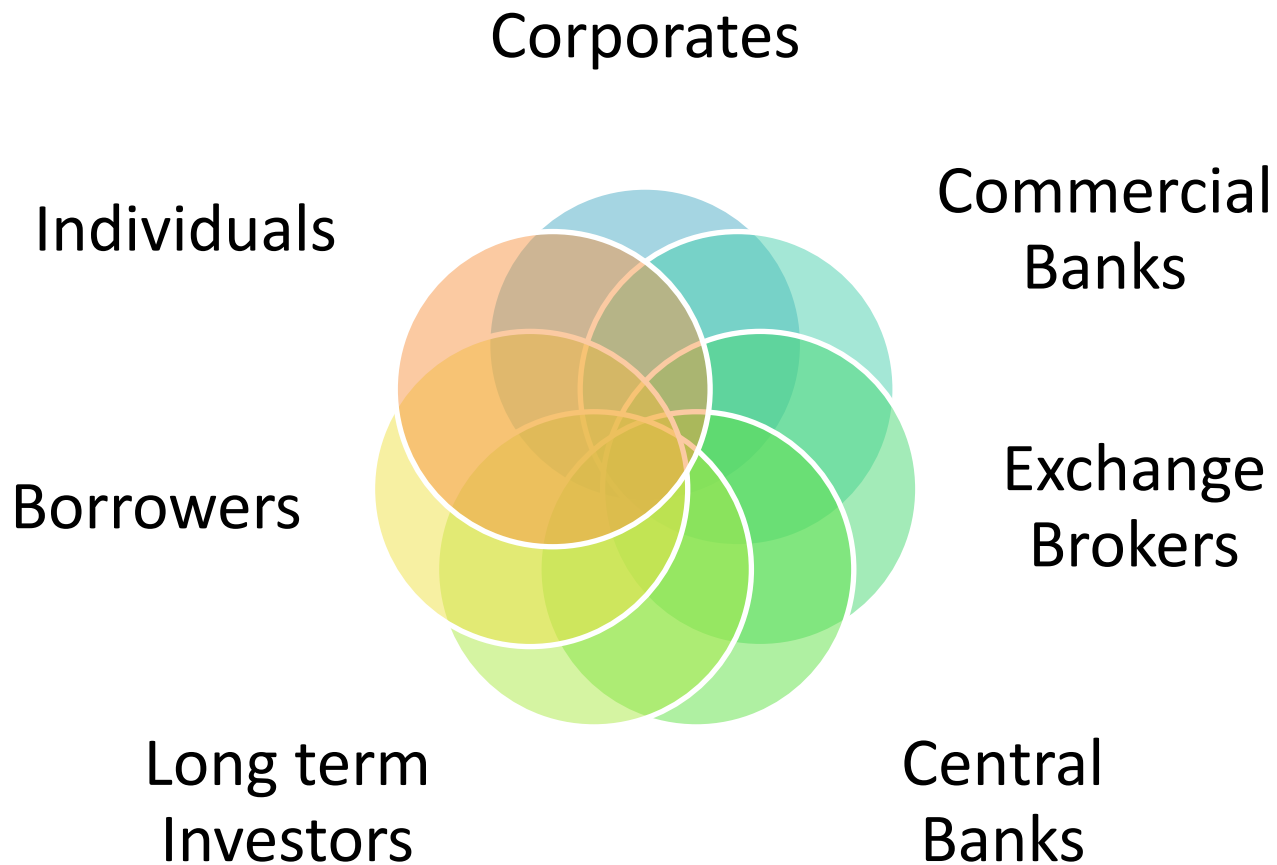
Average Volume of Global Equity Market/Day
– USD 0.8 Trn

Average Volume of Forex Market/Day
– USD 7.5 Trn



*April 2022 data by Bank for International Settlements

Participants in Foreign Exchange Market



USDINR

Dollar Bulls

India trade deficit

US Rising
interest rates

US
quantitative
tightening

Energy
prices

Economic
slowdown



Fastest growing
large economy

FII/FDI Flows

IT Exports

NRI Remittances

RBI supplying
dollars



Rupee Bulls

Who is winning the battle?

Long Term Price Action



Who is winning the battle?

Recent Price Action



Accounting Impact – Reading FX Gain / Loss item in P&L

How is FX Gain/ Loss calculated



- RBI Reference Rate
- Bank Card Rate
- Custom Rate

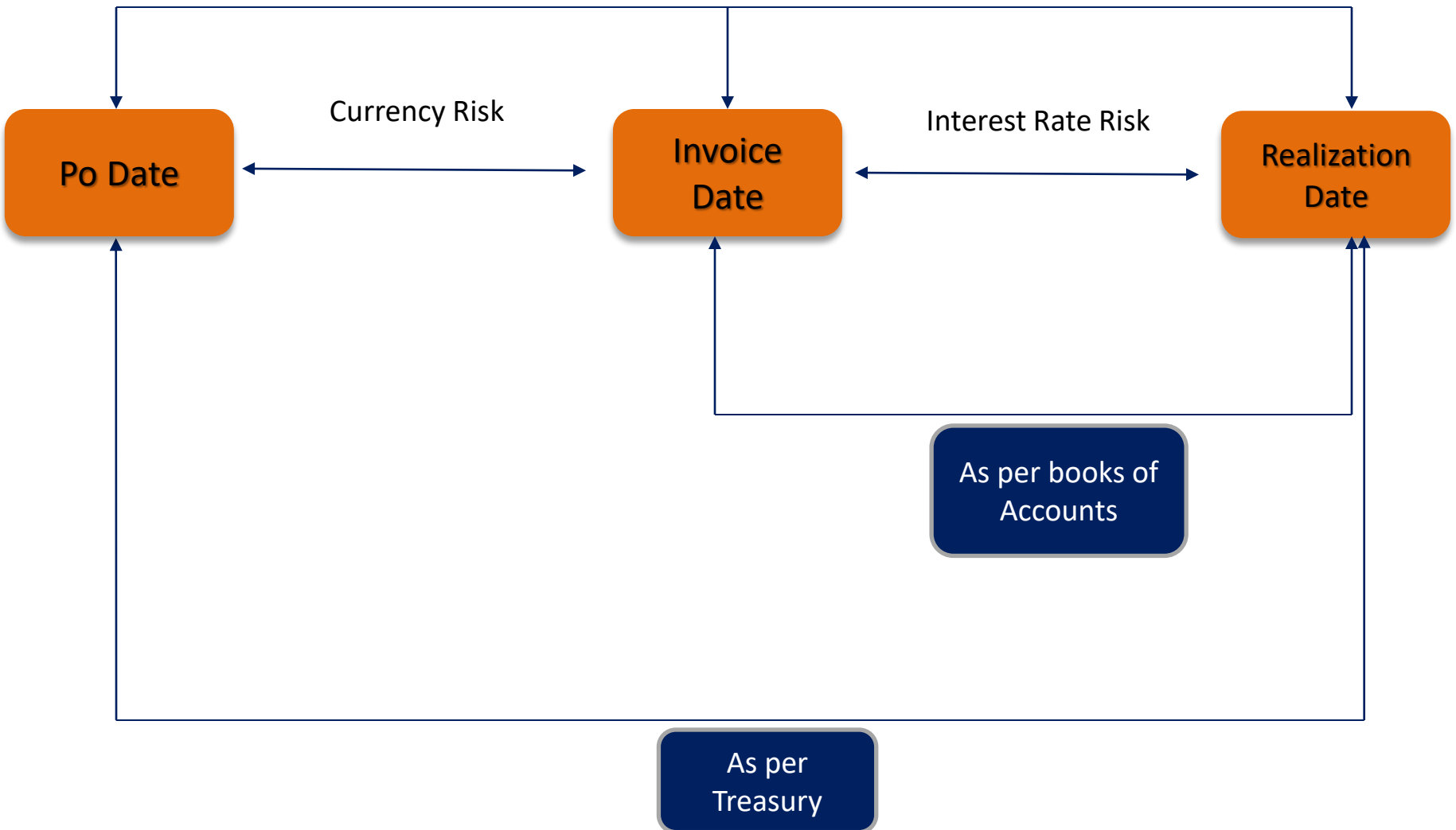
- Forward Rate
- Cash Rate

How is FX Gain/ Loss calculated

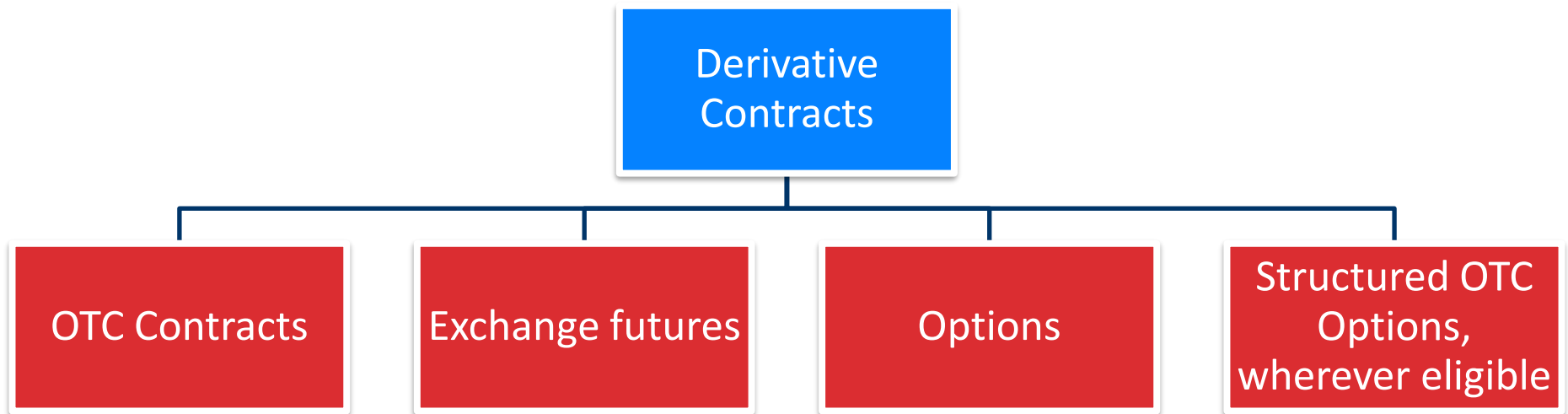
Profit & Loss Account

Particulars	Amount (Rs)	Particulars	Amount (Rs)
		Other Income	
		Exchange difference	XXXX
Other Expense			
Exchange difference	XXXX		

Exposure Management



Hedging Tools



Forward v/s Future

Distinction between Futures & Forwards

	Futures Market	Forwards Market
Location	Future exchange	No fixed location
Size of contract	Fixed (standard)	Depends on terms of contract
Maturity/Payment date	Fixed (standard)	Depends on terms of contract
Counter party	Clearing house	Known bank or client
Market place	Central exchange floor with worldwide network	Over the telephone with worldwide network/or anywhere
Valuation	Mark-to-market everyday	No unique method of valuation
Variation margins	Daily	None

Premium (Differential interest cost)

Particulars	Amount (Rs)
Spot	81.80
Premium 6 months (2%)	1.00
Forward Rate	82.80

Exporter Receives a premium

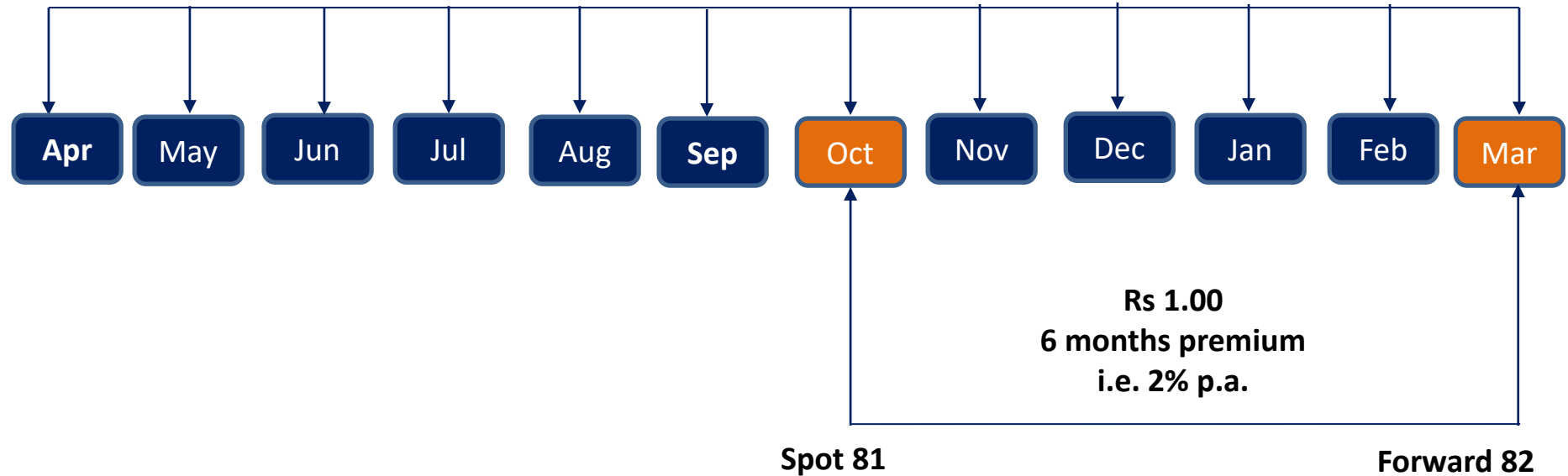
Importer Pays a premium

How is FX Gain/ Loss calculated

Profit & Loss Account

Particulars	Amount (Rs)	Particulars	Amount (Rs)
		Other Income	
		Exchange difference	1.00
		(For an exporter)	

For an importer who hedges the payables



FX Loss will be $82 \text{ Less } 81 = 1.00$

How is FX Gain/ Loss calculated

Profit & Loss Account

Particulars	Amount (Rs)	Particulars	Amount (Rs)
Other Expense			
Exchange difference	1.00		
(For an Importer)			

Case Study

Particulars	Company B
Net Exports	INR 400 cr
Receivable turnover cycle	3 months

Case Study

Particulars	Company B
Net Exports	INR 400 cr
Receivable turnover cycle	3 months
Exports Receivables	INR 100 cr

Case Study

Particulars	Company B
Net Exports	INR 400 cr
Receivable turnover cycle	3 months
Exports Receivables	INR 100 cr
Hedging Premium	2%
Fx Gain	INR 2 cr

Direct FX Risk



Direct Forex Risk

- Risk at enterprise level
 - Export / Import – Transaction Exposure
 - Long term Foreign Currency Assets / Liability (ECB) – Translation Exposure
 - Economic Exposure

Indirect FX Risk



Indirect Forex Risk

- Even when you transact in local currency but
 - Local Price is fixed on international price of commodity like Aluminium, Copper, Gold, Crude
 - Exchange rate plays important role in arriving at local price
 - Therefore there is an indirect exposure of Forex

Case Study 1

Facts of the Case

- Steel Importer (trader) opens LC to import 1m worth of steel for local sale
- Credit period (Import) 6 months
- USDINR @81
- 6 months premium – Rs 1.00

Please advice on hedge strategy

Some more facts

- Sale to the local market is linked with exchange rate

NOW



Please advice on hedge strategy

Case Study 2

Facts of the Case

- Textile Exporter sells goods of 1m USDINR to US customer.
- Credit period (Export) – 6 months
- USDINR @81
- Premium for 6 months – Rs 1.00
- Exporter hedges 6 months receivables @82
- In 3 months USDINR moves from 81 to 88
- US customer reverts back & asks for discount in agreed price

Does hedging serve the business objective?

3 Step Approach to Efficient Risk Management

Business Process



- Frame Risk Management Policies
- Define Standard Operating Processes

- Strong Research team
- Trade Execution team

- Measure FX Treasury Performance
- Identify gaps and fill them



**Thank You for your time &
attention!**

**Ankit Sharma
&
CA Pratik Gadhia**

Almus Risk Consulting LLP