

Comparison Calculation of Hedging in Forward Market and Money Market

Case Example: In April year 1, a US company has a subsidiary in the United Kingdom which is expected to have a net asset exposure of PDS 500,00 by April year 2.

Exposure of PDS 500,000 at April rate of \$2.50	\$1,250,000
Expected value of pound to decline to \$2.40	
Exposed assets of PDS500,000 at \$2.40	1,200,000
Loss in exposed assets in parent's book	50,000

Refer to Table 7 for the case scenario.

Case	Hedging in Forward Markets		Hedging in Money Market	
			Assume interest rates are 7% both in US and	
1	April Year 1		UK	
	Sell PDS500,000 for 1-year delivery at	\$1,250,000	April Year 1	
	\$2.50/PDS		Borrow PDS500,000 at 7%. Convert the	\$1,337,500
	April Year 2		proceeds into dollars at \$2.50./PDS. Invest	
	Buy PDS500,000 on spot market at \$2.40/PDS	(\$1,200,000)	proceed of loan in one-year security at 7%	
	Deliver PDS500,000 on forward contract at		April Year 2	
	\$2.50/PDS	\$1,250,000	Sell dollar denominated security	and the second s
	Gain in foreign exchange market	\$50,000	(\$1,250,000) +(\$1,250,000 X 0.07)	\$1,337,500

	Loss in exposed assets	(50,000)	Convert dollar proceed into pounds	
	Net effect	0	\$1,337,500 ÷ \$2.40	PDS557,292
			Pay loan in pounds	
			(PDS500,000) + (PDS500,00 X 0.07)	(PDS535,000)
			Gain in money transaction in pounds	PDS22,292
			Gain in money transaction in dollars	
			PDS22,292 X \$2.40	\$53,500
and a second		week a second control of the control	Loss in exposed assets	
			PDS500,000 X \$0.10	(50,000)
			Net effect	\$3,500
1A	Buy PDS500,000 on spot market at \$2.35/PDS	(\$1,175,000)	Sell dollar denominated security	
	Deliver PDS500,000 on forward contract at		(\$1,250,000) +(\$1,250,000 X 0.07)	\$1,337,500
(man de de marie de m	\$2.50/PDS	\$1,250,000	Convert dollar proceed into pounds	
riisi siggessaaringis	Gain in foreign exchange market	\$75,000	\$1,337,500 ÷ \$2.35	PDS569,148
ministrative menuncial property and the state of the stat	Loss in exposed assets	The second appropriate and	Pay loan in pounds	
	PDS500,000 X \$0.15 (depreciation)	(75,000)	(PDS500,000) + (PDS500,00 X 0.07)	(PDS535,000)
	Net effect	0	Gain in money transaction in pounds	PDS34,148
			Gain in money transaction in dollars	
ri _s denotation and the second			PDS34,148 X \$2.35	\$80,250
		The Administration of	Loss in exposed assets	
			PDS500,000 X \$0.15	(75,000)
**************************************			Net effect	\$5,250

1B	Buy PDS500,000 on spot market at \$2.60/PDS	(\$1,300,000)	Sell dollar denominated security	
	Deliver PDS500,000 on forward contract at		(\$1,250,000) +(\$1,250,000 X 0.07)	\$1,337,500
	\$2.50/PDS	\$1,250,000	Convert dollar proceed into pounds	The desired and the second and the s
	Loss in foreign exchange market	(\$50,000)	\$1,337,500 ÷ \$2.60	PDS514,423
	Gain in exposed assets		Pay loan in pounds	maline in regional property of the control of the c
	PDS500,000 X \$0.10 (appreciation)	50,000	(PDS500,000) + (PDS500,00 X 0.07)	(PDS535,000)
	Net effect	0	Loss in money transaction in pounds	(PDS20,557)
			Loss in money transaction in dollars	Plode agreement
			PDS20,557 X \$2.60	(\$53,500)
			Gain in exposed assets	Programme Constant
			PDS500,000 X \$0.10	50,000
			Net effect	(\$3,500)
			Assume interest rates are 7% in US and 9%	
2	Overhedge = Expected Profit/(forward contract		in UK. Overhedge at PDS847,456	
	- expected spot rate) = 50,000/(2.45-2.40) =		April Year 1	
	PDS1,000,000		Borrow PDS847,456 at 9%. Convert the	\$2,118,640
	April Year 1		proceeds into dollars at \$2.50./PDS. Invest	
	Sell PDS1,000,000 for 1-year delivery at		proceed of loan in one-year security at 7%	
	\$2.45/PDS	\$2,450,000	April Year 2	
	April Year 2		Sell dollar denominated security	
	Buy PDS1,000,000 on spot market at		(\$2,118,640) +(\$2,118,640 X 0.07)	\$2,266,949
	\$2.40/PDS	(\$2,400,000)	Convert dollar proceed into pounds	
	Deliver PDS1,000,000 on forward contract at		\$2,266,949 ÷ \$2.40	PDS944,562
	\$2.45/PDS	2,450,000	Pay loan in pounds	The state of the s

	Gain in foreign exchange market	50,000	(PDS847,456) + (PDS847,456 X 0.09)	(PDS923,727)
No. of the Control of	Loss in exposed assets	(50,000)	Gain in money transaction in pounds	PDS20,835
New Control of the Co	Net effect	0	Gain in money transaction in dollars	
		vorum*re-prisoners/s	PDS20,835 X \$2.40	\$50,004
		and design	Loss in exposed assets	ing free control of the control of t
			PDS500,000 X \$0.10	(50,000)
			Net effect	~ 0
2A	Buy PDS1,000,000 on spot market at	and the state of t	Sell dollar denominated security	
	\$2.35/PDS	(\$2,350,000)	(\$2,118,640) +(\$2,118,640 X 0.07)	\$2,266,949
	Deliver PDS1,000,000 on forward contract at		Convert dollar proceed into pounds	
	\$2.45/PDS	\$2,450,000	\$2,266,949 ÷ \$2.35	PDS964,659
ement in the property of the p	Gain in foreign exchange market	\$100,000	Pay loan in pounds	
The state of the s	Loss in exposed assets		(PDS847,456) + (PDS847,456 X 0.09)	(PDS923,727)
	PDS500,000 X \$0.15 (depreciation)	(75,000)	Gain in money transaction in pounds	PDS40,932
	Net effect	\$25,000	Gain in money transaction in dollars	TO COMMITTEE TO CO
			PDS40,932 X \$2.35	\$96,190
			Loss in exposed assets	
			PDS500,000 X \$0.10	(75,000)
			Net effect	\$21,190
2B	Buy PDS1,000,000 on spot market at		Sell dollar denominated security	
	\$2.60/PDS	(\$2,600,000)	(\$2,118,640) +(\$2,118,640 X 0.07)	\$2,266,949
	Deliver PDS1,000,000 on forward contract at		Convert dollar proceed into pounds	

mila paggunip consummitty up passaria a chical comi a vasa.	\$2.45/PDS	\$2,450,000	\$2,266,949 ÷ \$2.60	PDS514,423
	Loss in foreign exchange market	(\$150,000)	Pay loan in pounds	
	Gain in exposed assets		(PDS847,456) + (PDS847,456 X 0.09)	(PDS923,727)
	PDS500,000 X \$0.10 (appreciation)	50,000	Loss in money transaction in pounds	(PDS51,824)
	Net effect	(\$100,000)	Loss in money transaction in dollars	vinnina di
			PDS51,824 X \$2.60	(\$134,742)
			Gain in exposed assets	Project Systems (Systems Systems Syste
			PDS500,000 X \$0.10	50,000
			Net effect	(\$84,742)
			Assume interest rates are 7% in US and 9%	
2'	Hedge only PDS500,000		in UK	TO THE PROPERTY OF THE PROPERT
	April Year 1		April Year 1	Vocanie de la constante de la
	Sell PDS500,000 for 1-year delivery at		Borrow PDS500,000 at 9%. Convert the	
	\$2.45/PDS	1,225,000	proceeds into dollars at \$2.50./PDS. Invest	
	April Year 2		proceed of loan in one-year security at 7%	
	Buy PDS500,000 on spot market at \$2.40/PDS	(\$1,200,000)	April Year 2	
	Deliver PDS500,000 on forward contract at		Sell dollar denominated security	
	\$2.45/PDS	\$1,225,000	(\$1,250,000) +(\$1,250,000 X 0.07)	\$1,337,500
	Gain in foreign exchange market	25,000	Convert dollar proceed into pounds	
	Loss in exposed assets	(50,000)	\$1,337,500 ÷ \$2.40	PDS557,292
	Net effect	(\$25,000)	Pay loan in pounds	
			(PDS500,000) + (PDS500,00 X 0.09)	(PDS545,000)
			Gain in money transaction in pounds	PDS12,292
			Gain in money transaction in dollars	

<u>nggyloggignegolistis kirikikki kiringgyingiriki, listas legi yakt ndi Milan</u>			PDS12,292 X \$2.40	\$29,500
			Loss in exposed assets	
			PDS500,000 X \$0.10	(50,000)
			Net effect	(\$20,500)
2A'	Buy PDS5000,000 on spot market at \$2.35/PDS	(\$1,175,000)	Sell dollar denominated security	
	Deliver PDS500,000 on forward contract at		(\$1,250,000) +(\$1,250,000 X 0.07)	\$1,337,500
	\$2.45/PDS	\$1,225,000	Convert dollar proceed into pounds	
	Gain in foreign exchange market	\$50,000	\$1,337,500 ÷ \$2.35	PDS569,149
	Loss in exposed assets		Pay loan in pounds	Million and the control of the contr
	PDS500,000 X \$0.15 (depreciation)	(75,000)	(PDS500,000) + (PDS500,00 X 0.09)	(PDS545,500)
	Net effect	(\$25,000)	Gain in money transaction in pounds	PDS23,649
			Gain in money transaction in dollars	Angel
			PDS23,649 X \$2.35	\$55,575
			Loss in exposed assets	
			PDS500,000 X \$0.15	(75,000)
nggyal ann cana at haiph man kin chi dha sajan yi an kuwa ni mina at hai kin kin kin kin kin kin kin kin kin k			Net effect	(19,425)
2B'	Buy PDS5000,000 on spot market at \$2.60/PDS	(\$1,300,000)	Sell dollar denominated security	
	Deliver PDS500,000 on forward contract at	,	(\$1,250,000) +(\$1,250,000 X 0.07)	\$1,337,500
	\$2.45/PDS	\$1,225,000	Convert dollar proceed into pounds	
	Loss in foreign exchange market	(\$75,000)	\$1,337,500 ÷ \$2.60	PDS514,423
	Gain in exposed assets	•	Pay loan in pounds	

Net effect	(\$25,000)	Loss in money transaction in pounds	(PDS31,077)
		Loss in money transaction in dollars	
		PDS31,077 X \$2.60	(\$80,800)
		Gain in exposed assets	nerozii ¹ Yemiyaya
		PDS500,000 X \$0.10	50,000
		Net effect	(30,800)