

# Navigation systems inc



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Navigation Systems Inc. is a company which has a worldwide operation which includes United States, Germany and Shanghai China. The spot rate deals with currency for immediate delivery and the forward exchange rate is used for future delivery of a currency. Most of foreign exchange transactions take place on spot, meaning that's when the buying and selling currencies take place immediately. The exchange rates governing such transactions are called spot exchange rate. One can, however, buy a foreign currency not on spot, but for a future delivery. One can buy a foreign currency for a month from today, or for two months from today.

The exchange rate negotiated now for later delivery is called forward exchange rate.

In the problem given, we are to repatriate the operations of Navigation Systems Inc. to the United States currency using a spot rate and a 12-month forward exchange rate. See computations below:

Assuming a spot rate of \$1.1740 and a 12-month forward exchange rate of \$1.1594:

Germany (100 million)

Spot rate  $100 \text{ million} * 12\% \text{ ROS} * \$1.1740 = \$14,088,000$

12-month forward

exchange rate  $100 \text{ million} * 12\% \text{ ROS} * \$1.1594 = \$13,912,800$

China (650 million Yuan)

Spot rate  $650 \text{ million} * 9\% * \$1.1740 = \$68,679,000$

12-months forward

exchange rate  $650 \text{ million} * 9\% * \$1.1594 = \$67,824,900$

It is clear that the repatriation must be made using a spot rate because it gives a greater amount of conversion with that of a forward exchange rate.

The company must be advised to convert its income at spot transaction for a greater yield. Benefits can be derived using a currency option or a currency swaption especially when the exchange rates are high and will yield a greater amount of that currency.

Foreign exchange market is where the exchange rate is determined. This market is not a single gathering place where traders shout buy and sell orders at each other. Traders work at their desk dealing with each other by computer and by phone.

The daily volume of business dealt with on the foreign exchange markets in 1998 was estimated to be over \$2.5 trillion dollars. (Daily volume on New York Stock Exchanges is about \$20 billion) Today (2006) it may be about \$5 trillion dollars. The daily volume of the foreign exchange market in North America in October 2005 was about \$440 billion. The Foreign Exchange market expanded considerably since President Nixon closed the gold window and currencies were left afloat vis--vis other currencies and speculators could profit from their transactions.

Until recently, this market was used mostly by banks, who fully appreciated the excellent opportunities to increase their profits. Today, it is accessible to any investor enabling him to diversify his portfolio.

The emergence of Yen as a major currency, and new Euro, in addition to the Dollar beside many other currencies, and the frequent fluctuations in relative value of these currencies provide a great opportunity to generate substantial profits. Chinese Renminbi is convertible on current account, but not on capital account. When it becomes fully convertible, which is not likely to occur until 2020 or later, it will fundamentally affect the foreign exchange market due to its sheer volume.

The foreign exchange market operates 24 hours a day permitting intervention in the major international foreign exchange markets at any point in time. (International Transactions and Currencies Values, website)

Sources:

1.) International Transactions and Currencies Values, website