

# International financial markets assignment

Business



Describe the background and corporate use of the following international financial markets: Foreign exchange market International money market International credit market International bond market International stock markets Foreign Exchange Market ; A worldwide decentralized market for trading currencies which determines relative values of foreign currencies. ; Assist international trade, investments, foreign traveling. ; Foreign exchange dealers acts as intermediaries.

Spot Rate & its features ; Rate at which one currency is traded for another is spot rate. SUDS is the most commonly accepted currency especially in the countries with weak currencies. ; Spot market liquidity Spot Market Structure ; Company ' A ' purchases supplies on first day of every month priced at 100, 000 Euros from Company ' B ' . Chi 3 International Financial Markets 1 By pm month ago, Euro was worth \$1. 08. ' A ' needed \$108, 000 (Euro to pay. Sank transferred money to ' B ' . ; Today new payment is due. Euro is valued at \$1. 12. Company ' A ' needs \$112, 000 (Euro \$1. 2) to make payment to ' B ' .

Time Zones & Spot Market Attributes of Banks Providing Foreign Exchange Offer cash management services for the clients. ; May provide assessment of foreign economies. ; Provide forecast of future value of exchange rates.

Foreign Exchange Quotations ; Bid-Ask Spread: Commercial banks charge a fee for conducting foreign exchange transaction. Ask rate - Bid rate ; Bid-Ask Spread %  $\frac{\text{Ask rate} - \text{Bid rate}}{\text{Ask rate}}$  Spread is higher for illiquid currency that are not traded frequently as compared to the liquid currencies.

X 100 Exercise ; Utah Banks bid price for Canadian dollar is \$0. 7938 and its ask price is \$0. 81. What is the bid/ask percentage spread? Compute the bid/ask percentage spread for Mexican Peso retail transaction in which the

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ask rate is \$. 11 and the bid rate is \$. 10. Solution ;  $(\$ . 81 - \$ . 7938)/\$ . 81 = . 02$  or ;  $[(\$ . 11 - \$ . 10)/\$ . 11] = . 091$ , or 9. 1%. Interpreting Foreign Exchange Quotations ; Ever-changing value of exchange rates throughout the day leads to direct and indirect quotations at a point of time. ; No. Of dollars per currency 1 = \$1. 0 ; Indirect Quotations ; No. Of units of currency per dollar (Reciprocal of Direct Quotation) 1 / 1. 20 Example ; If spot rate of Euro is US \$1. 031 Direct Quotation 1 = \$1. 031 ; Indirect Quotation = 1/ Direct Quotation = 1/ \$1. 031 0. 97=\$1 Cross Exchange Rate ; It is the exchange of two non US dollar currencies. Tourist at the airport who is from Mexico and is on his way to Canada.

He is willing to buy your C\$200 for 1 , 300 pesos. Should you accept the offer or cash the Canadian dollars in at the airport? Explain. Calculate ; Today you notice the following exchange rate quotations: ; \$1 is equal to 3. 00 Argentine pesos ; 1 Argentine peso = 0. 50 Canadian dollars ; You need to purchase 100, 000 Canadian dollars with U. S. Dollars. How many U. S. Dollars will you need for your purchase? International Credit Market ; Sometimes, MNCs obtain medium-term funds. ; Funds are obtained through term loans from local financial institutions. Funds may be obtained through the issuance of notes in their local markets. ; MNC may obtain funds through banks located in foreign markets. Reoccurred Market ; Euro credit loans: - Loans of one year or longer extended by banks to MNCs/Govt. Agencies in Europe are called Euro credit loans. - Loans are denominated in dollars or other currencies with maturity of 5 years. - The market dealing with Euro credit loans is called Floating Rate Loans: ; London Interbank Offer Rate (LIBOR) with premium up to 3% depending upon credit worthiness of

borrower. LABOR is the rate commonly charged for loans between banks.  
Http://Labor Syndicated Loans ; When banks are unwilling/unable to process a huge loan they form groups know as syndicates. ; Lead bank negotiate terms with borrowers. ; Underwriting fee is paid by borrower. ; Commitment fee of 0. 25% or 0. 50% P. A. Is paid for unused portion of the available credit. ; Interest rates are determined by: - Credit worthiness of borrower - Maturity period Currency denominating the loan.