

Exercise: Swapping a Eurocurrency Deposit

- ❑ Assume your bank wants to take a deposit in Euros and lend the funds to a client in US dollars at Libor + 0.50%
- ❑ What rate would the deposit pay, in the interbank market?
- ❑ What rate would the loan earn?
- ❑ How would the bank hedge the mismatch, and what would the all-in cost be?

The International Money Market

International currency rates, Jan 13 2006

Jan 13	Short term	7 days notice	One month	Three months	Six months	One year
Euro	2 1/4 to 2 5/32	2 3/8 to 2 9/32	2 13/32 to 2 11/32	2 17/32 to 2 7/16	2 21/32 to 2 19/32	2 27/32 to 2 3/4
Sterling	4 7/16 to 4 3/8	4 5/8 to 4 15/32	4 9/16 to 4 1/2	4 9/16 to 4 1/2	4 9/16 to 4 15/32	4 19/32 to 4 9/16
Swiss Franc	13/16 to 5/8	7/8 to 23/32	7/8 to 27/32	1 to 15/16	1 5/32 to 1 1/8	1 13/32 to 1 3/8
Canadian Dollar	3 9/32 to 3 3/16	3 9/32 to 3 3/16	3 7/16 to 3 11/32	3 9/16 to 3 15/32	3 25/32 to 3 21/32	4 to 3 29/32
US Dollar	4 11/32 to 4 1/4	4 11/32 to 4 5/16	4 7/16 to 4 7/16	4 19/32 to 4 19/32	4 23/32 to 4 23/32	4 27/32 to 4 13/16
Japanese Yen	1/16 to 1/32	1/16 to 1/32	1/32 to - 1/32	1/16 to - 1/32	3/32 to 1/32	5/32 to 1/16
Singapore \$	3 to 2 7/8	3 5/16 to 3 3/16	3 5/16 to 3 3/16	3 5/16 to 3 1/16	3 5/16 to 3 1/16	3 5/16 to 3 1/16

Spot and Forward Exchange Rates

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 13	Closing mid-point	Change on day	Bid/offer spread	Day's Mid		One month		Three months		One year		J.P. Morgan Index
				high	low	Rate	%PA	Rate	%PA	Rate	%PA	
Europe												
Czech Rep. (Koruna)	23.8558	-0.0696	404 - 711	23.9600	23.8404	23.8065	2.5	23.7103	2.4	23.2983	2.3	-
Denmark (DKr)	6.1776	-0.0196	767 - 785	6.2021	6.1699	6.1666	2.1	6.1458	2.1	6.0597	1.9	107.6
Hungary (Forint)	207.337	-0.6210	212 - 462	208.070	207.190	207.614	-1.6	208.067	-1.4	210.237	-1.4	-
Norway (Nkr)	6.6584	-0.0376	545 - 623	6.7014	6.6545	6.6463	2.2	6.6223	2.2	6.531	1.9	110.8
Poland (Zloty)	3.1484	-0.0069	462 - 505	3.1673	3.1448	3.1484	0.0	3.1464	0.3	3.132	0.5	-
Russia (Rouble)	28.4507	-0.0504	467 - 547	28.5029	28.4467	28.4206	1.3	28.4256	0.4	28.5356	-0.3	-
Slovakia (Koruna)	31.0455	-0.0797	284 - 626	31.1690	30.9590	31.0035	1.6	30.916	1.7	30.54	1.6	-
Slovenia (Tolar)	198.320	-0.6500	250 - 390	199.070	198.130	198.208	0.7	197.901	0.8	195.808	1.3	-
Sweden (SKr)	7.7131	-0.0251	109 - 153	7.7448	7.6868	7.6951	2.8	7.6624	2.6	7.5312	2.4	98.7
Switzerland (Sfr)	1.2831	-0.0024	828 - 834	1.2869	1.2811	1.2792	3.7	1.2715	3.6	1.2408	3.3	109.6
Turkey (Lira)	1.3416	+0.0025	396 - 436	1.3436	1.3396	1.3526	-9.8	1.3717	-9.0	1.4475	-7.9	-
UK (0.5649)* (£)	1.7703	+0.0085	701 - 705	1.7730	1.7595	1.7702	0.1	1.7707	-0.1	1.7751	-0.3	98.2
Euro (0.8282)* (Euro)	1.2075	+0.0036	074 - 077	1.2090	1.2028	1.2097	-2.2	1.2138	-2.1	1.2312	-2.0	120.5
SDR (€)	0.69060	-	-	-	-	-	-	-	-	-	-	-
Argentina (Peso)	3.0412	-0.0028	400 - 425	3.0450	3.0400	3.05	-3.5	3.0725	-4.1	3.2412	-6.6	-
Americas												
Brazil (R\$)	2.2671	+0.0024	650 - 692	2.2820	2.2650	2.2884	-11.3	2.3266	-10.5	2.4972	-10.1	-
Canada (C\$)	1.1617	-0.0017	614 - 620	1.1639	1.1582	1.1607	1.0	1.1588	1.0	1.1524	0.8	124.8
Mexico (New Peso)	10.5780	+0.0120	760 - 800	10.6020	10.5700	10.615	-4.2	10.669	-3.4	10.9255	-3.3	86.1
Peru (New Sol)	3.4515	+0.0060	510 - 520	3.4520	3.4480	3.4521	-0.2	3.453	-0.2	3.4585	-0.2	-
USA (\$)	-	-	-	-	-	-	-	-	-	-	-	90.3
Australia (A\$)	1.3293	-0.0011	289 - 298	1.3335	1.3266	-	-	-	-	-	-	118.6