

In association with **CLE**,
warm welcome to the world of
Myforexeye



Currency dynamics and leveraging technology to optimize forex operations

Agenda

1

How to save money in forex conversions? Managing forex rates

2

Optimizing interest cost on exports

3

Forward contracts are a critical tool for exporters. Extensive historical data analysis by Myforexeye Research

4

Is Rupee headed to 72 or 78?

5

Use technology to address forex challenges - Myforexeye mobile application

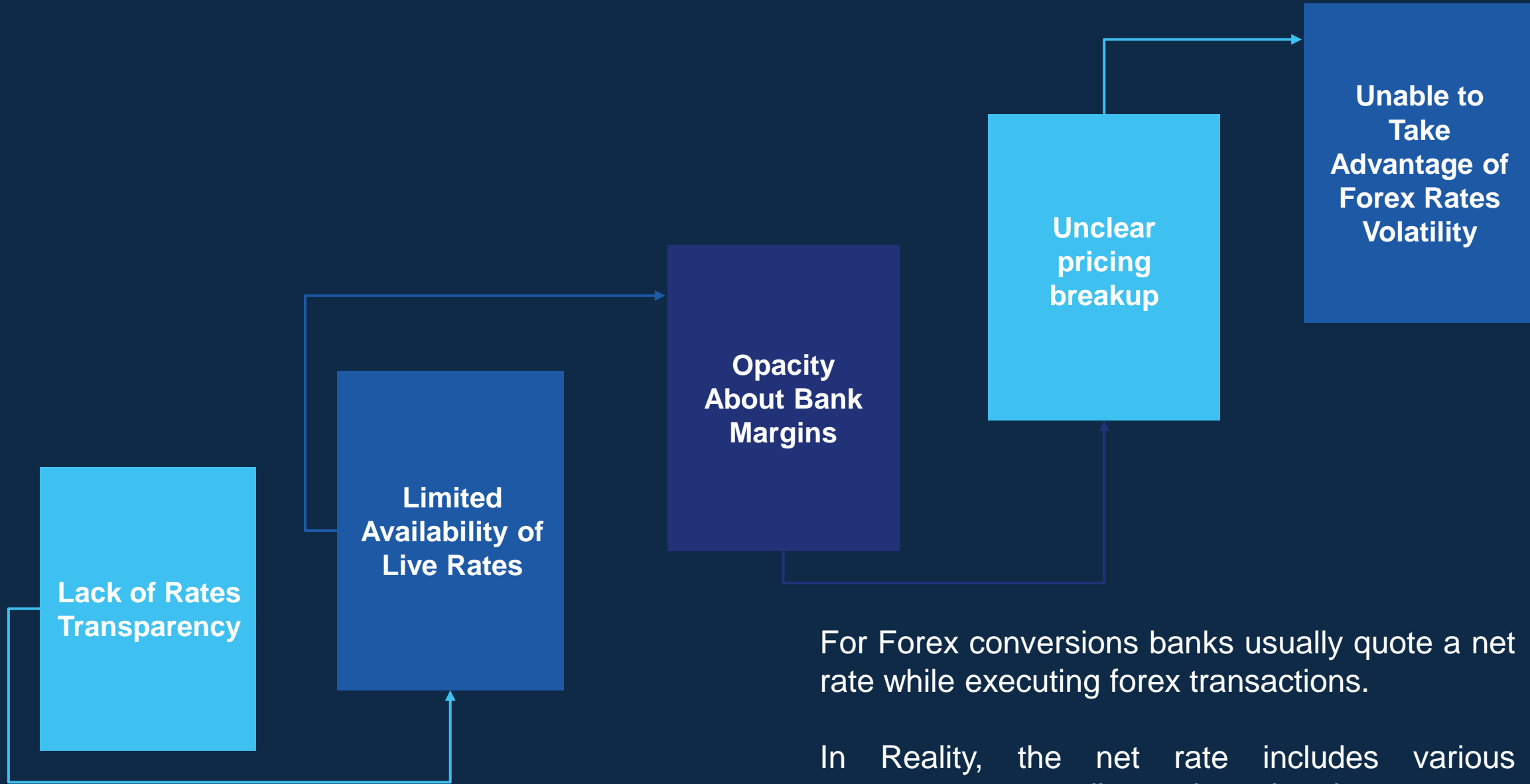
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Question & Answer session

How to save money in forex conversions?

Managing forex rates

“I always feel banks overcharge while converting foreign exchange”



For Forex conversions banks usually quote a net rate while executing forex transactions.

In Reality, the net rate includes various components according to the value date.

Value Dates

Today is 20 October 2021

S	M	T	W	T	F	S
October 2021						
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
			74.8325	74.8400	74.8500	Sat
24	25	26	27	28	29	30
Sun	74.8717	74.8789	74.8861	74.8933	74.9005	Sat
31						
Sun						
November 2021						
	1	2	3	4	5	6
	74.9222	74.9294	74.9366	Holiday	74.9510	Sat
7	8	9	10	11	12	13
Sun	74.9727	74.9799	74.9871	Holiday	75.0016	Sat
14	15	16	17	18	19	20
Sun	75.0232	75.0304	75.0377	75.0449	Holiday	Sat
21	22	23	24	25	26	27
Sun	75.0738	75.0819	75.0901	Holiday	75.1065	Sat
28	29	30				
Sun	75.1311	75.1393				

Cash/Ready

- Settlement today (T)

Tom

- Settlement on next working day (T+1)

Spot

- Settlement on the 2nd working day (T+2)

Forward

- Settlement any date beyond spot

Components of Forex Rates

		TRANSACTION TYPES			
		Cash	Tom	Spot	Forward
C O M P O N E N T S	Spot Rate	✓	✓	✓	✓
	(-) Cash Spot	✓	✗	✗	✗
	(-) Tom Spot	✗	✓	✗	✗
	(+) Premium	✗	✗	✗	✓
	(-) Bank Margin	✓	✓	✓	✓

For Cross Currencies there are two additional components:

- Cross Currency Spot
- Cross Currency Forward Premiums/Discounts

Key Points

Banks are our counterparty who want to maximize their profits.

Lack of transparency and information availability favours the banks.

Cash Spot is a benefit to importers, usually not transferred by banks. It is a charge to exporters, they are always charged.

Bank margins are deliberately kept variable and unclear.

Real time spot rates and forward premiums are not available on public platforms and hence misquoted. Exporters are given less premiums and importers are charged more.

What type of Forward should we use?

FIXED DATE MATURITY

- Maturity (due date) is a fixed date
- Usually taken for Month end. Can be taken for any date
- E.g. - 31Aug, 15May, 8Mar, 30June
- Premium received till that date.



Optimum premium
received

WINDOW FORWARD

- Maturity is a time period. Maximum period 30 days (minimum 2 days)
- Usually taken from 1st to 15th of a month or 1st to 30th of a month
- Period is customizable (1-15Feb, 18Nov-17Dec, 11-18Jan)
- Premium received till the first day of the period.



Less premium
received

- Fixed date forwards: Use when forward premiums are high (More than 2%-3%)
- Window forwards: Use when forwards premiums are low

Optimizing Interest Cost on Exports

Export Packing Credit (EPC) – Foreign Currency (USD) vs INR

	PCFC (\$)	EPC (INR)	EPC (INR)
Organization Type	MSME / Non-MSME	MSME	Non-MSME #
6M LIBOR	0.20%	-	-
SPREAD	2.00% – 2.50%	-	-
PCL Interest	-	8.00% - 9.00%	7.00% - 8.00%
Interest Subvention	-	(-) 5%	(-) 3%
Forward Premium	-	(-) 4%	(-) 4%
TOTAL COST	2.20% - 2.70%	0%	0.00% - 1.00%

For eligible ITC (HS) Codes

Export Packing Credit in INR – Process Flow

DAY 1

MATURITY

Step 1

Step 2

Step 3

Final Step



Avail Export Packing Credit (EPC) in INR. Eg. Rs 10 crs for 90 days.

Convert EPC amount into equivalent foreign currency amount at current spot.
 $10\text{crs} / 75.00 = \$1.33 \text{ mio}$

Take a forward for \$1.33 mio for EPC maturity. Benefit of USDINR forward premium of 4%.

On receipt of dollar remittance, use the forward to convert to INR and repay the EPC.

Thumb Rule

Interest subvention on Packing Credit was extended till 30Sep'21. No RBI notification on further extension as yet.

Interest subvention
available

Avail PCINR

Interest subvention
not available

Avail PCFC

A misguided conclusion by exporters -
we do not hedge forex exposures as
USDINR is always appreciating!

Myth or Fact?



Does the Rupee always weaken?



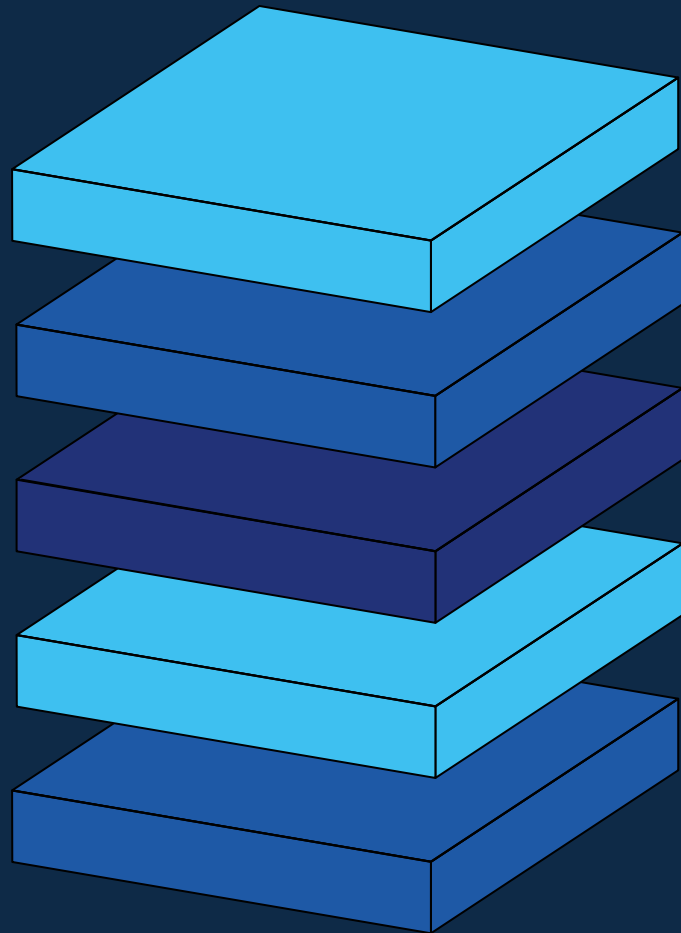
What about USDINR forward premiums?



Are we seeing the complete picture?



Historical Data Analysis: USDINR Forward vs Unhedged (Open)



Methodology

1

Analysis of USDINR data of past 21 years. From Jan 2000 till today.

2

Forward maturities selected are – 3 months, 6 months and 12 months

3

For each maturity, a forward is booked on each working day of the month.

4

Gains/Losses are computed by comparing the Forward Rate with Spot at Maturity

5

Comparison between USDINR Forward Premium and Rupee Depreciation

Historical Data Analysis: Forward vs Unhedged (Open) USDINR

	3 Months	6 Months	12 Months
Average Forward Premium (annualized)	4.44%	4.25%	3.99%
Average Rupee Weakening	2.69%	2.70%	2.71%
Average Gain/Loss	1.75%	1.55%	1.28%
Total Number of Trades	5275	5207	5111
%age Successful Trades	64%	65%	65%

Is Rupee headed towards 72 or 78?

Rupee Dynamics – Fundamental Analysis

US Stimulus Tapering

The Federal Reserve held its monetary policy meeting on 21–22Sept where the Chairman Jerome Powell indicated that the central bank is likely to begin tapering in November. 9 out of 18 FOMC members are expecting a rate hike in 2022. This pushed Dollar index higher and contributed to Rupee depreciation.

Depreciation

Rupee has depreciated 4.8% on an average since 2010 and the average interest rate differential has stayed around 5.0 - 5.5%. As such, long term rupee depreciation is unlikely to reverse.

Dollar Index

Dollar index rose to 10-month highs after central banks all over the world turned hawkish amid surging inflation. With Fed's withdrawal of stimulus slowly approaching, we expect further weakening in riskier currencies such as Rupee.



Foreign Inflows

FII inflows rose from -\$0.23bn in Q2 2021 to \$5.64bn in Q3 2021. Foreign inflows are likely to increase in the coming months in the light of a large number of IPO/OFS's lined up for the next two months and likely inclusion of Indian sovereign bonds in the Russell Index.

Bond yields

Developed markets' bond yields have been rising sharply, indicating market's fear of higher inflation in the future. The sharpest rise has been in UK and German yields. Higher yields lead to rupee weakening due outflows from the debt market and tightening of policies by major central banks.

RBI Intervention

RBI has not been intervening aggressively suggesting that the central bank might be comfortable with Rupee staying around 75.

Crude Prices

Crude oil prices surged to a 3-year high of \$83.78 per barrel as market reacted to OPEC+'s unchanged gradual production increase plan. A spike in crude prices leads to Rupee weakening as India imports almost 85% of its crude requirement.

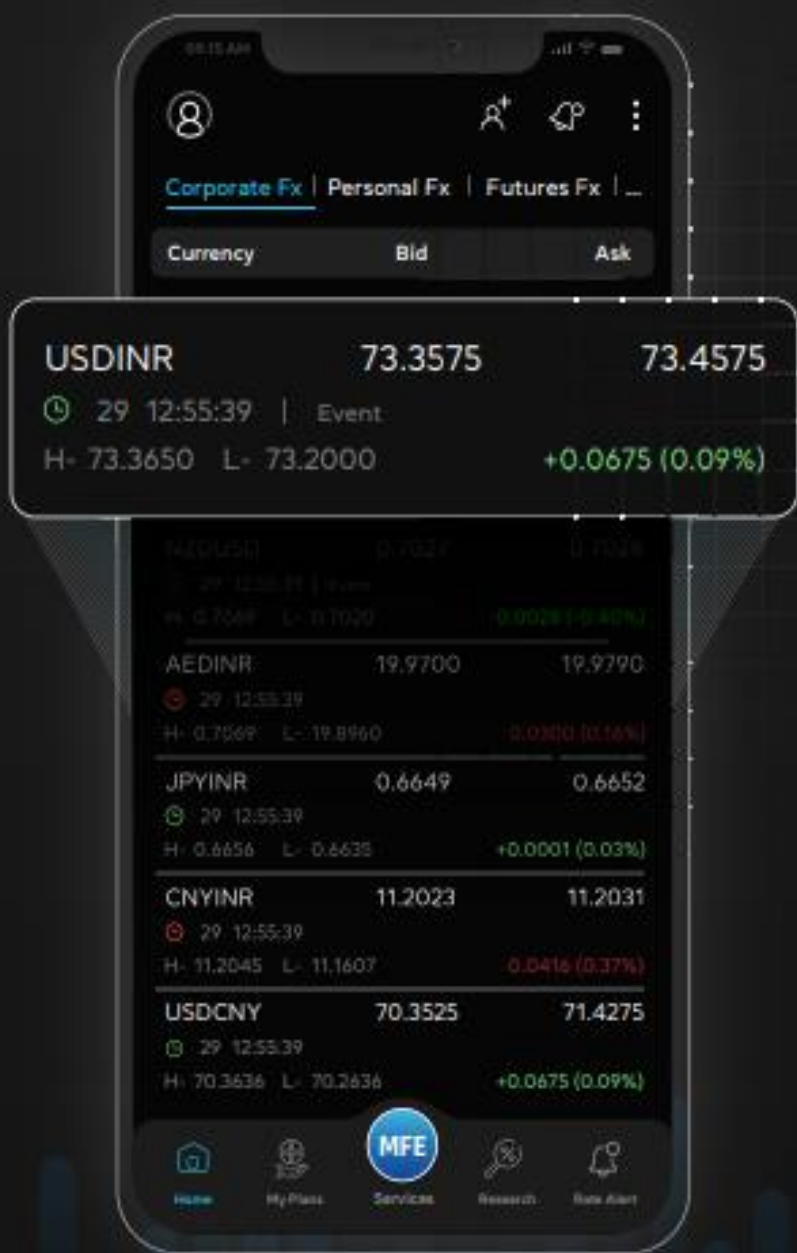


Rupee Dynamics – USDINR Technical Analysis



- Uptrend for 11 years - unlikely to reverse in the long term
- Long term USDINR support indicated by 89-week simple moving average (blue line)
- Traded below this support line for 3 years only in the past 11 years
- Long-term trendline support around 72-73

Myforexeye Mobile Application



Check real-time forex rates



Save money on each transaction. Access transaction specific rates for business remittances, hedging forex risk, money transfers, currency exchange and pre-paid forex travel cards

Cash

Tom

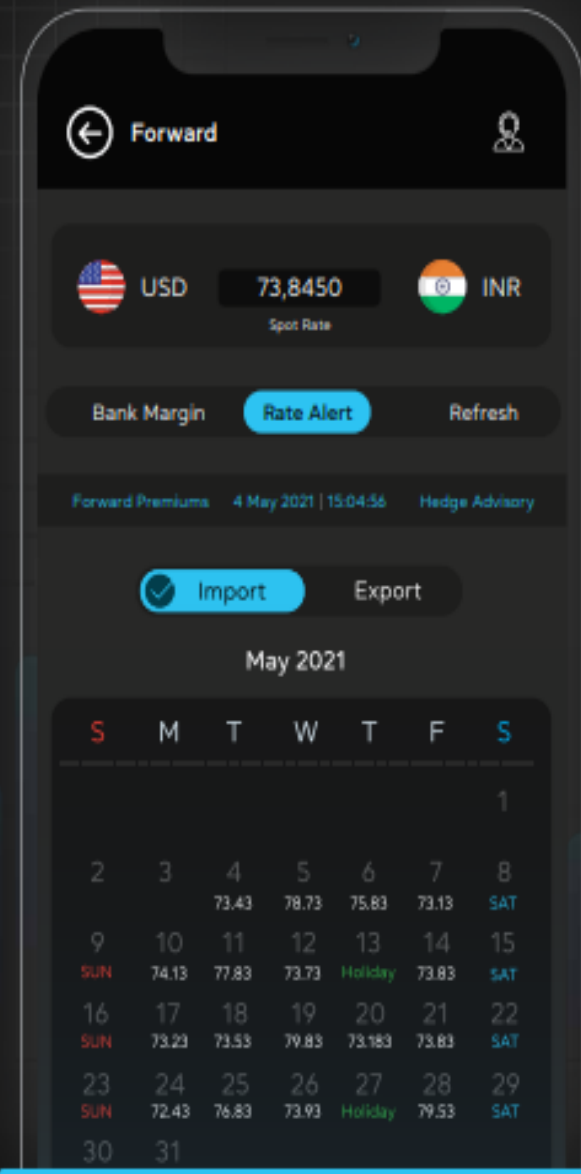
Spot

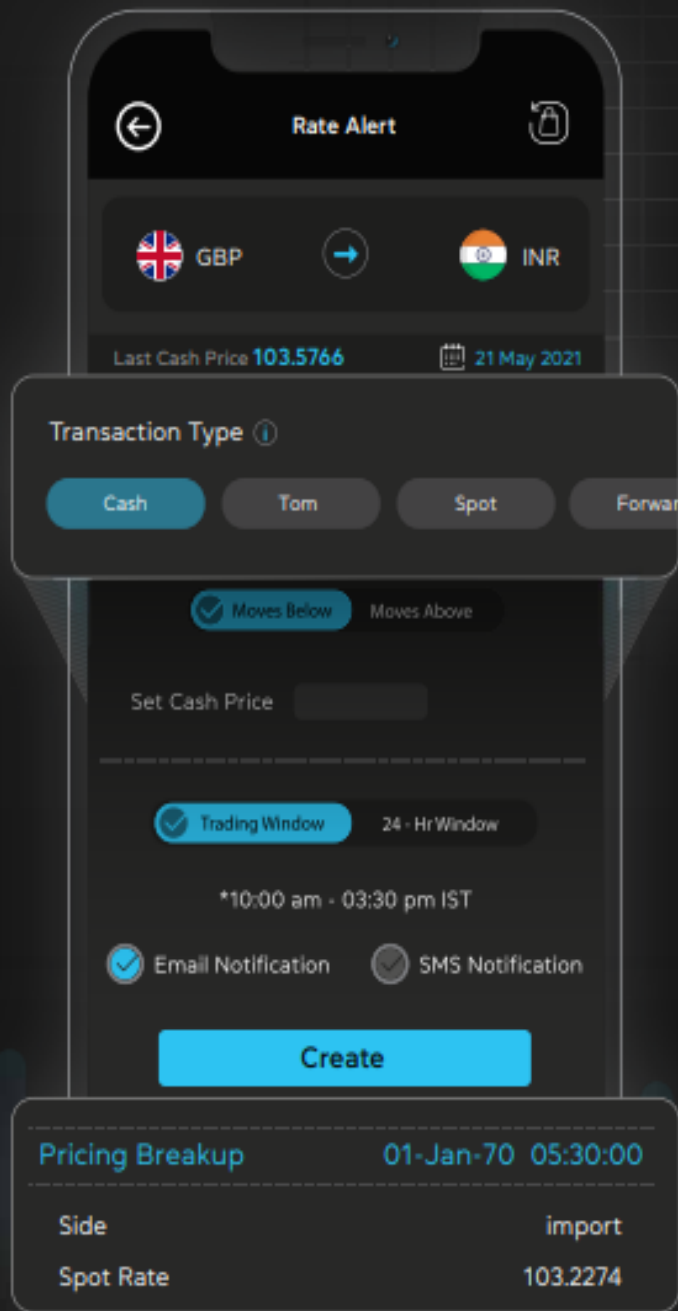
Forward

Calendar to hedge forex through forwards



Now have access to 365-day forward calendar for multiple currencies. Negotiate rates in real-time with banks





Award winning Rate alert function

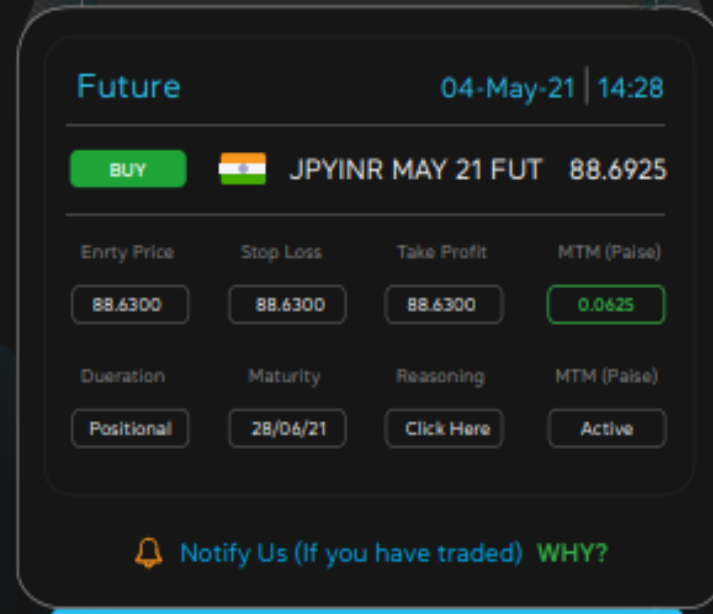
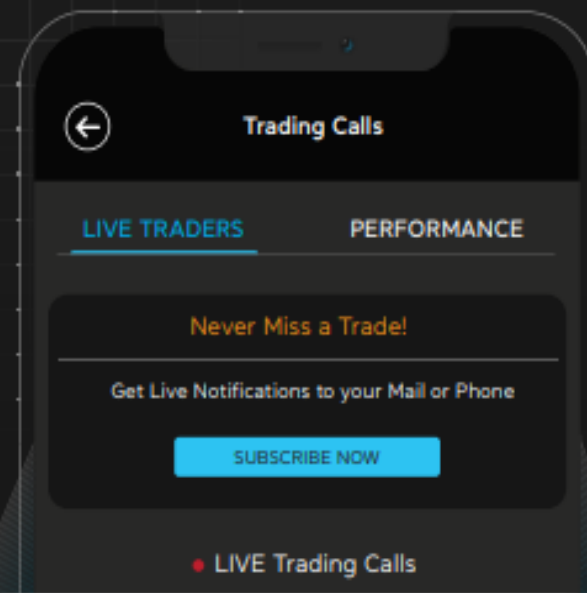


Transaction specific rate alert features will mesmerize you. Are you undertaking a cash or a spot or a forward transaction?

Forex traders' delight



Get up to 4 trade calls a day for domestic and international currency pairs. Grow your money like never before.



Currency	Currency Note	Forex Card	Money Transfer
USD US Dollar	73.46	73.26	73.41
EUR Euro	89.09	88.34	88.54
GBP British Pound	103.55	102.10	100.85
AED UAE Dirham	20.87	20.77	20.67
THB Thai Baht	2.39	NA	NA
SGD Singapore Dol.	55.90	55.30	55.45
AUD Australian Dol.	56.47	55.67	55.82
CAD Canadian Dollar	60.85	59.52	59.70

Personal forex needs in a single app



Buy or sell currencies for international travel, remit money overseas at rock bottom prices or buy a forex travel card

Questions Please!!!!

Helpdesk: support@myforexeye.com; 7771 009 009

ritesh.victor@myforexeye.com

Are you ready?



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