International finance (B.com. Hons. In Finance)

Semester-VI, course code-BCOMHFINC601

Course:- CC-13

Unit-6 : Exchange Rate Quotations

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Exchange rate quotation:- **Foreign Exchange Quotation** is the amount of **currency** that is exchanged for a unit of another **currency**. For example, The exchange rate of rupee in India may quoted in terms of dollar.

(rs/$ = rs75.41 /$). It means $1 is worth rs75.41.

Foreign exchange quotations can be three types, they are:

1. Direct Quotation
2. Indirect Quotation and
3. Cross rates

Direct quotation:

Direct quotation is the price of one unit of a foreign currency quoted in terms of the home country's currency. In other words, it is the home currency that would cost you to purchase one unit of the foreign currency.

For instance, a quotation of Rs. 75.41 per dollar in New Delhi is a direct quotation for the rupee. This is also known as a quotation in European terms.

<u>Indirect Quotation:</u>

The indirect quotation is just the reverse of direct quotation. It is the price of one unit of the home country's currency quoted in terms of foreign currency. In other words, it is the home currency that would cost you to purchase one unit of the foreign currency.

For example, a quotation of $0.0133 per rupee is an indirect quotation for the rupee. You will notice here that the direct and indirect quotations are reciprocal of each other.

In other words, the direct quotation is equal to one divided by the indirect quotation. This is also known as a quotation in American terms.

Cross Rates:- Cross rates are the rates between two currencies where neither one is the US dollar.

What Is the Interbank Rate?
The interbank rate is the rate of interest charged on short-term loans made between U.S. banks. Banks may borrow money from other banks to ensure that they have enough liquidity for their immediate needs, or lend money when they have excess cash on hand. The interbank lending system is short-term, typically overnight and rarely more than a week.

The term interbank rate also refers to the interest rate charged when banks conduct wholesale transactions in foreign currencies with banks in other nations.

The Interbank Rate in Foreign Exchange
The alternate definition of interbank rate is relevant to the <u>interbank market</u>, the global market used by financial institutions to buy and sell foreign currencies. In this case, the interbank rate or interbank exchange rate is the current value of any currency as compared to any other currency. The rates fluctuate constantly by fractions when the market is open. The interbank rate is what you see when you compare any two currencies in an online currency calculator.

Interbank Transactions

The transactions in the interbank market may place for settlement

- on the same day; or
- two days later; or

- some day late; say after a month

Where the agreement to buy and sell is agreed upon and executed on the same date, the transaction is known as cash or ready transaction. It is also known as value today. The transaction where the exchange of currencies takes place two days after the date of the contact is known as the spot transaction. The settlement price(or rate) is called spot price(or spot rate). For instance, if the contract is made on Monday, the delivery should take place on Wednesday. If Wednesday is a holiday, the delivery will take place on the next day, i.e., Thursday. Rupee payment is also made on the same day the foreign currency is received.

The transaction in which the exchange of currencies takes places at a specified future date, subsequent to the spot date, is known as a forward transaction. The settlement rate is called forward rate. The forward transaction can be for delivery one month or two months or three months etc. A forward contract for delivery one month means the exchange of currencies will take place after one month from the date of contract. A forward contract for delivery two months means the exchange of currencies will take place after two months and so on.

Telegraphic transfer (TT)

- A telegraphic transfer is an electronic method of transferring funds utilized primarily for overseas wire transactions.
- Telegraphic transfers are used most commonly in reference to Clearing House Automated Payment System (CHAPS) transfers in the U.K. banking system.
- Typically telegraphic transfer is complete within two to four business days, depending on the origin and destination of the transfer, as well as any currency exchange requirements.
- Telegraphic transfers are also known as telex transfers, abbreviated TT

Funds sent between institutions are transferred through the Federal Reserve System for U.S. domestic transfers and the Society for Worldwide Interbank Financial Telecommunication (SWIFT) for international transfers.

Mail Transfers or Mail Orders

This is the mode used when you wish to transfer money from your account in Centre 'A' to either your own account in Centre 'B' or to somebody else's account. In this mode of transfer, you are required to fill in an application form, sign a charge slip or give a cheque for the amount to be transferred plus exchange and collect a receipt. The Bank will, on its own, send an order to its branch at centre 'B' to deposit the said amount in the account number designated by you. This is, however, a dying product and many banks like State Bank of India have since withdrawn this.

Bill of Exchange

Bill of Exchange, can be understood as a written negotiable instrument, that carries an unconditional order to pay a specified sum of money to a designated person or the holder of the instrument, as directed in the instrument by the maker. The bill of exchange is either payable on demand, or after a specified term.

In a business transaction, when the goods are sold on credit to the buyer, the seller can make the bill and send it to the buyer for acceptance, which contains the details such as name and address of the seller and buyer, amount of bill, maturity date, signature, and so forth.

Features of Bill of Exchange

- **A bill of exchange an instrument in writing.**
- **It is drawn and signed by the maker i.e. drawer of the bill.**
- **It is drawn on a specific person i.e. drawee, to pay the specified amount.**
- **Contains an unconditional order to a person i.e. drawee.**
- **To make an instrument of value the drawee must accept it.**
- **The specified amount is payable to the person whose name is mentioned in the bill or to the bearer.**
- **It specifies the date by which amount should be paid.**
- **It requires to be stamped, duly signed by the maker and accepted by the drawee.**

There are mainly three parties:

1. **Drawer**: The person who makes the bill, or who gives the order to pay a certain sum of money, is the drawer of the instrument.
2. **Drawee**: The person who accepts the bill of exchange, or who is directed to pay a certain sum, is called drawee.
3. **Payee**: The person receiving payment is called the payee, who can be a designated person or the drawer himself.

[Forms of bill of exchange:- inland bill, foreign bill, trade bill, accommodation bill.

What is an international money transfer?

An international money transfer is a safe and secure way to make international payments that may be better value and faster than using your bank.

The exchange rates offered by money transfer companies (brokers) can be better than the exchange rates offered by banks. The transfer fees they charge can often be cheaper than banks too – with some money transfer companies offering free transfers.

The best ways to send money internationally

1. Your bank. Most U.S. banks offer money wire services, but they tend to be more expensive than digital services focused solely on money transfers. ...
2. Western Union. Western Union may be one of the oldest ways outside of a bank to quickly send money to someone, but they've kept up with the times. ...
3. PayPal. ...
4. TransferWise
5. OFX

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