TYPES OF FOREIGN EXCHANGE QUOTA

Direct Quote	Indirect Quote
Bid & Ask Price of currencies	Spot Quote
Forward Quote	Cross Currency Rates
Inter-bank Quotations	Spread/Cost of transaction
Official Exchange Rate	Free Market Rate

(Buy low, sell high)

1. DIRECT QUOTE :-

- Price of foreign currency is quoted in terms of home currency.
- In this system variable units of home currency equivalent to a fixed unit of foreign currency are quoted.
- Domestic currency is quoted currency For Eg.
  - USD/INR = 71.25 Rs./$

    USD = Base currency; INR = quote/counter currency

For Example :- GBP (Great Britian Pound) / INR

GBP = base currency; INR = counter currency

- Lower Exchange Rate in direct quote → domestic currency is appreciating value (INR↑)

→ Under direct method exchange rate the principle adopted by the person is to buy at a lower price from customers and sell them at high price

Direct Quotation

Bid < Ask rate

Buy low → Pay lesser unit of Home currency → For a fixed unit of foreign currency → Receive more units of Home currency ← Sell high

* In India, Direct quotation was prevalent till 1966 After devaluation of rupee in 1966.

Example: $\boxed{1\ \$}$ = $\boxed{₹60}$

Foreign — Home

1 unit of foreign currency –

> 2. **Indirect Quote** :- Bid rate > Ask rate

- Price of home currency is quoted in terms of foreign currency.
- In this system variable units of foreign currency equivalent to a fixed unit of home currency are quoted.
- Foreign currency is the quoted currency.

For Example :- INR/USD = 0.016

₹ = 0.016 \$ → so he has need to change home curr. in foreign.

Person X → want to visit in US

Indirect Quotation

Buy high → Acquired more units of foreign currency → For a fixed unit of home Currency → Part with lesser units of foreign ← Sell Low

Because trader want profit we

> 3 **Bid & Ask Rates** :-

Bid :- Price at which the forex dealer is willing to buy a unit of base currency

- When you go to sell something you will get less.... (general life statement for produces)

Ask rate :- Price at which the forex dealer willing to sell a unit of the base currency the same thing,

- When you go to buy the same thing you will have to pay more....

Example :- With **Two way quote**

₹ / \$ = 60 / 60.50 → Ask Rate (Broker Asking rate to sell his \$)

This show the more value of dollar than ₹

Bid rate (Broker offer to Buy your dollar)

Rate at which Bank will Buy

Rate at which Bank will sale

Bid: If we sale 1 \$ or convert then we get = ₹ 60

Ask: If we Purchase or Require then we pay = ₹ 60.50.

Q => Suppose We have to Pay = 10,000 \$

Let Home currency = £

1 £ = 1.50 (Bid) | 1.52 (Ask)

Company → need of conversion → £ sell → **BANK** => It means Bank sell \$

Company ← receive ← Purchase \$ ← **BANK**

So Bank will pur. the £ 1.50.

$$1£ = 1.5\$$$

$$1.5\$ = 1£$$

$$1\$ = \frac{1}{1.5} £ = \frac{1}{1.5} \times 10,000 = 6666.6 \$$$

Cash/Ready/Tod = T+D
Tommorow = T+1
after Tomm. = T+2

4 SPOT QUOTE :-

A spot rate, or spot price, represents a contracted price for the purchase or sale of a commodity, security, currency for immediate delivery and payment on the spot date, which is normally one or two business day after the Trade date.

- The spot rate is the current price of the asset quoted for the immediate settlement of the spot contract.

Example 1. Contract for oil, wheat, or gold. This is because stocks always trade at spot.

2. If a wholesale company wants immediate delivery of orange juice in Febuary, it will pay the spot price to the seller and have orange juice delivered with in 2 days.

> The spot rate, also referred to as the "spot price", is the current market value of an asset at the moment of the quote.

5 Forward Rate :-

- The forward exchange rate is the exchange rate at which a bank agrees to exchange one currency for another at a future date when it enters into a forward contract with an investor.

- Multinational corporations, banks, and other financial institutions enter into forward contracts to take the advantage of the forward rate for hedging purposes.

(9) Official Exchange Rate :- official exchange rate refers to the exchange rate determined by national authorities or to the rate determined in the legally sanctioned exchange market.

It is calculated as an annual average based on monthly averages

(10) Free Market Rate :-

- The free market is an economic system based on supply and demand with little or no government control. It is a summary description of all voluntary exchanges that place in a given economic environment.

- A key feature of free markets is the absence of forced transactions or condition on transaction

- Some exchanges may also take place in violati of government rules and regulations on the so-called "Black Market", which may be in some ways considered an underground version of free Market.