FINM 37300: Homework 3

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16.

We have CLP *onshore* deposit rates. We cannot decide whether the spot is greater or less than the forward, since the USDCLP is non-deliverable.

17.

We don't cross the bid ask spread twice, therefore use the 3M and 6M bid rates to buy/sell:
3M bid:

$$8.1510 \frac{1 - 0.70\% \frac{92}{360}}{1 + 0.65\% \frac{92}{360}} = 8.12331$$

6M bid:

$$8.1510 \frac{1 - 0.44\% \frac{92}{360}}{1 + 0.93\% \frac{92}{360}} = 8.094809$$

Therefore the swap points are:

$$(8.12331 - 8.094809) \times 10,000 = 281.17 \text{swap points}$$

18.

Since we don't cross the bid ask spread twice, just take the difference in the forward points on the bid side. Therefore, 13-3 = 10 swap points.

19.

I would quote the 12 month rate, because otherwise there would be an arbitrage profit by buying at any lower rate I quote and taking the short side with the 12 month rate.

20.

The market suggests the Canadian interest rate is going down relative to the US interest rate, therefore we wouldn't participate in a quote. Also, the spread between the bid and ask is very narrow compared to question 19, so there is more uncertainty in where the exchange rate will go.