

EXAMPLE SERIES NO. 4
INTEREST PARITY

1. In December, the current interest rate on AUD is 4.75% p.a. and on EUR 1.00% p.a. The current exchange rate is 1.3719 AUD/EUR.

- Write the essence of uncovered interest parity and apply it to the given currencies and situation.
- Determine, under the uncovered interest parity condition, the exchange rate expected for the year

2. The current exchange rate is 21.80 CZK/USD. The annual interest rate on CZK is 6.75% p.a. and on USD 3.25% p.a. Determine what should happen to interest rates on CZK if the exchange rate is expected to be 22.40 CZK/USD in a year.

3. Calculate the 6-month CAD/USD exchange rate if the following spot rates and interest rates are quoted.

CAD/USD	1,0131	1,0145
and _{CAD} (p.a.)	3,875	4
and _{USD} (p.a.)	2,275	2,875

4. The following spot and forward foreign exchange rates and interest rates are quoted. Determine whether there is a covered interest arbitrage opportunity under the given conditions if the investment period is 30 days.

CHF/USD spot	1,2819	1,2829
CHF/USD forward	1,2785	1,2797
and _{CHF} (p.a.)	1,75 %	1,88 %
and _{USD} (p.a.)	4,87 %	4,99 %

5. The bank is offered a 6-month term deposit of CZK 10 million. SEK 6 MILLION. It is Friday 04/06/2022, the six months run from Monday 07/06/2022 to Monday 06/12/2022 (i.e. 183 days). The Bank has no commercial use for SEK and therefore places the funds in the euro currency market, but in USD, as the dollar market is the largest and most liquid segment of the euro currency markets. The bank must determine the interest rate for the SEK deposit from the given Eurodollar rates and the SEK/USD swap rate. Calculate what interest rate the bank will offer.

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and _{USD} (p.a.)	2,75 %	2,88 %
SEK/USD spot	6,6276	6,6298
Swap 6m	458	488