FINA 7360
Spring 2022

CASE 6 SOLUTIONS – Class Assignments

1. Discussed in class and check Case 6 solutions (case6sol-s18.ppt).

2. See Case 6 solutions (workbookcase6-s22.xls).

3. Like all interest rate instruments, BB had a positive correlation to US interest rates; but they were mainly driven by Mexican risk. Thus, T-bond futures would not have been appropriate instruments. BB futures would have worked very well. The CDS market would have also been a good hedging tool. Indirect hedges like shorting instruments with an exposure to Mexican risk – say, Mexican peso bonds or Mexican stocks- would have been OK too.

4. Hedgers of Mexican risk. For example, a firm with real investments in Mexico can **short** Mexican Brady bonds to hedge its Mexican risk exposure. An issuer of Mexican peso bonds can **buy** Mexican BB to hedge its Mexican risk exposure.