Citfin

S citem pro finance

Currency Par Forward

A series of Currency Forwards with different settlement dates for the same currency Par and with a single exchange rate.

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Currency Par Forward

A Currency Par Forward is a financial derivative that can be used to hedge today's exchange rate for a series of Currency Forwards with different settlement dates for the same currency Par, where the exchange rate will be the same for all Forwards within the Currency Par Forward, and settlement of the trades will take place at a specific future date.

Over the next five months, I will receive euros from my business partner and will need to convert euros into crowns. Since I like today's exchange rate, could I use it to exchange euros once they arrive?

Client

Do you know the exact date when you will receive the euros?

Dealer

Yes, I do. The business partner is going to send money gradually for three invoices, always on a specific date. It will be 100,000 euros in one month, 60,000 euros in two months, and 10,000 euros in five months. I always have money in my account on the last day of the month.

Client

So let's arrange for a five-month Par Forward on a specific date. You're saying that euros are exchanged into crowns always on the last day of the month. The first exchange is going to take place next month, the next exchange in two months, and then in five months. We will therefore peg the exchange rate for three futures trades on a specific date.

Dealer

I like that, but what if my money doesn't arrive as scheduled? And then I won't have the needed euros to settle the transaction...

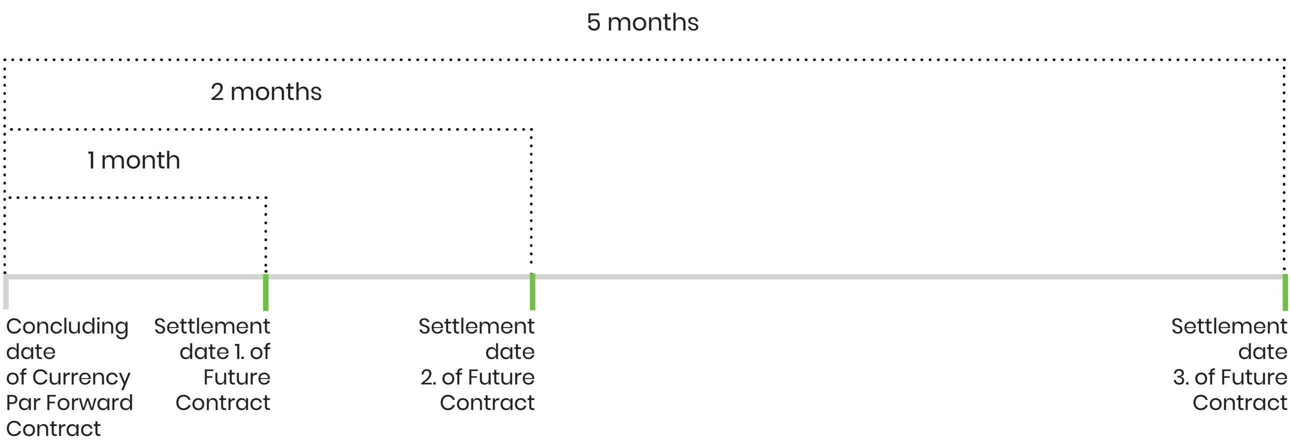
Client

It's fine. We will simply move the due date of individual futures trades with a Swap to a later date. And if by chance the money arrives earlier, i.e. before the pre-agreed date, we will move the settlement date again with a Swap, but this time to an earlier date.

Dealer

In that case, it works. Let's do it.

Client



Conclusion of a Currency Par Forward Contract with Window the client buys CZK and sells EUR

Contract date of a Currency Par Forward	30 April
Number of Forward trades within a Currency Par Forward	3

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Settlement date
Forward trade No. 1	100,000	EURCZK 25.80	2,580,000	30 May
Forward trade No. 2	60,000	EURCZK 25.80	1,548,000	01 July
Forward trade No. 3	10,000	EURCZK 25.80	258,000	30 September

Total value of Currency Par Forward in CZK	CZK 4,386,000
The paid deposit of 5% as of 30 April	CZK 219,300 (CZK 4,386,000 * 0.05)

Settlement of a Currency Par Forward at the agreed settlement date

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Settlement date
Forward trade No. 1	100,000	EURCZK 25.80	2,580,000	30 May

Forward settlement date	30 May
(Current exchange rate: EURCZK 25.60)	
Forward value in EUR	EUR 100,000
Forward value in CZK	CZK 2,580,000
The paid deposit as of 30 April (5%)	CZK 219,300
A client sends	**EUR 100,000 to Citfin**
Citfin sends the client	**CZK 2,580,000 (CZK +129,000, i.e., proportion of the total deposit)**

Settlement of a Currency Par Forward before the maturity date

The Currency Swap allows the client to settle his or her Currency Par Forward before the selected settlement date.

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Settlement date
Forward trade No. 2	60,000	EURCZK 25.80	1,548,000	01 July

Client settles Currency Par Forward No. 2	24 June
Current exchange rate	EURCZK 25.60

SWAP before the agreed settlement date

Swap No. 1	Client buys	EUR 60,000 at EURCZK 25.80 as of 01 July
Swap No. 2	Client sells	EUR 60,000 at EURCZK 25.795 as of 24 June

The difference between the originally hedged rate of EURCZK 25.80 and the currently traded rate of EURCZK 25.795 is determined by forward points, which are an integral part of the calculation of the forward rate, taking into account the difference in the value of EUR on 01 July and on the settlement date on 24 June. The difference between the current and original value of the trade = 1,548,000 – 1,547,700 = CZK 300

A client sends	**EUR 60,000 to CITFIN**
Citfin sends the client	**CZK 1,625,100**

*(EUR 60,000 * EURCZK 25.80 = 1,548,000, i.e., the original value of the Currency Par Forward + proportional deposit of CZK 77,400 – CZK 300 due to forward points = CZK 1,625,100)*

Settlement of Currency Par Forward with Swap

If the settlement date of the Currency Par Forward arrives and the client is not yet willing or able to settle this financial future on 30 September, the client will arrange a Currency Swap whereby he or she "postpones" the obligation under the Currency Par Forward to a future date.

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Settlement date
Forward trade No. 3	10,000	EURCZK 25.80	258,000	30 September

SWAP

Current exchange rate		EURCZK 25.30
Swap No. 1	Client buys	EUR 10,000 at EURCZK 25.30 as of 30 September
Swap No. 2	Client sells	EUR 10,000 at EURCZK 25.29 as of 15 October

The difference between the originally hedged rate of EURCZK 25.80 and the current swap rate of EURCZK 25.30 is the exchange rate difference (exchange rate gain) by which the client's exchange rate depreciates, but at the same time the deposit increases. The difference between the current rate of EURCZK 25.30 and the future rate of EURCZK 25.29 is determined by forward points, which are an integral part of the calculation of the forward rate, taking into account the difference in the value of EUR on 30 September and on 15 October.

Original value of the Forward = 25.80 * 10,000 = CZK 258,000
Current value of the Forward = 25.29 * 10,000 = CZK 252,900
Value difference = 258,000 – 252,900 = CZK 5,100
Cost of "postponement" of the trade due to forward points = CZK 100
(EUR 10,000 * CZK 0.01, i.e., the difference between the exchange rates of EURCZK 25.30 and 25.29)
Original deposit paid by the client = CZK 12,900
Current value of advance after Swap = CZK 17,900 Deposit difference = CZK 5,000

Calculation of the deposit

Citfin requires a 5% deposit on financial futures, which is sent by the client when these types of trades are arranged. In the event that the exchange rate moves significantly against the open position during the term of the financial future and its coverage by a deposit falls below 2.5%, Citfin may ask the client to replenish the deposit back to 5%.

Client trades EUR for CZK	
Date of the Financial Future Contract	30 April
Exchange rate	EURCZK 25.80
Three Future Trades value in EUR	EUR 170,000
Three Future Trades value in CZK	CZK 4,386,000
The paid deposit (5%)	CZK 219,300

CZK weakens during the duration of the Financial Future	
Current date	23 May
Current rate EURCZK	EURCZK 26.50
Current deposit	CZK 219,300 (4,386,000 * 0.05)
Original Future value	CZK 4,386,000 (EUR 170,000 * EURCZK 25.80)
Current Future value	CZK 4,505,000 (EUR 170,000 * EURCZK 26.50)
Potential loss	CZK 119,000 (CZK 4,505,000 – CZK 4,386,000))

Current coverage of the Future in CZK	**CZK 100,300**
(CZK 219,300 deposit – CZK 119,000 potential loss)	
Current coverage of the Future in %	**2,29 %**
(CZK 100,300 current coverage / CZK 4,386,000 original value * 100)	
ow much of the deposit do you need to have with Citfin	**CZK 338,300**
(CZK 219,300 deposit 5% + CZK 119,000 potential loss)	
Deposit to be replenished	**119 000 CZK**
(CZK 338,300 deposit required – CZK 219,300 current deposit)	

In the event that the koruna subsequently returns to stronger levels and the client realizes a potential profit, Citfin will return the replenished deposit to the client.

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