Swapping from the current exchange rate – client sells EUR

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Concluding forward contracts

On 1 August, the client concludes a forward contract for the sale of EUR 100,000 to CZK at EURCZK 25.80 to be settled on 1 September. The client sends a deposit of 5% of the trade: CZK 129,000.

Client's sub-account balance:

CZK	Deposit in CZK	EUR
0	129,000	0

Expiry of trade I

The client wishes to postpone the settlement of the trade for another month. The koruna has strengthened to EURCZK 25.50. A swap occurs when CITFIN sells EUR 100,000 at EURCZK 25.50 on 1 September and simultaneously buys EUR 100,000 from the client at the same rate EURCZK 25.50 on 1 October.

Client's sub-account balance:

CZK	Deposit in CZK	EUR
0	159,000	0

2,580,000 – 2,550,000 = CZK 30,000

The current profit of CZK 30,000 from the swap transaction is added to the CZK deposit. If the client did not swap but settled the trade, the exchange rate of EURCZK 25.80 would still apply.

When the trade is settled on 1 October, the client would be in the following situation:

The client wires EUR 100,000 to CITFIN, which immediately wires the client CZK 2,580,000, which is the value of the forward trade ((25.50 * 100,000) + 30,000 = CZK 2,580,000). CITFIN also returns the deposit of CZK 129,000 to the client.

Expiry of trade II

On October 1, the client wishes to postpone the settlement of the forward trade again. Meanwhile, the koruna has weakened to EURCZK 26.10. A swap occurs when CITFIN sells EUR 100,000 at EURCZK 26.10 on 1 October and simultaneously buys EUR 100,000 at the same rate EURCZK 26.10 on 1 November.

Client's sub-account balance:

CZK	Deposit in CZK	EUR
0	99,000	0

2,550,000 – 2,610,000 = CZK - 60,000

The CZK account balance decreases by the current exchange rate loss from the swap transaction, leaving CZK 99,000 in the blocking sub-account (i.e. 129,000 + 30,000 – 60,000 = CZK 99,000).

The forward is covered in absolute terms: 129,000 + 30,000 – 60,000 = CZK 99,000

The forward is covered in relative terms: (99,000 / 2,610,000) * 100 = 3.8%

At the moment CITFIN does not yet require a replenishment of the deposit; this is replenished if the amount of the forward cover falls below 2.5%.

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Vypořádání obchodu

On 1 November the client settles the trade. The client wires CZK 100,000 to CITFIN, which immediately wires the client CZK 2,610,000 (the value of the forward trade) together with a blocking balance of CZK 99,000. When EUR 100,000 is sold, the resulting exchange rate is again the initial EURCZK 25.80 after the deposit is credited, because the sum of partial amounts sent, i.e., CZK 2,709,000, is equal to the value of the original forward and the deposit.

1.	1 August - forward trade contract concluded	receivable in CZK 2,580,000	receivable in EUR 25.80 * 100,000
2a	1. August - the client sends a deposit in the amount of 5% from his/her	receivable in CZK from the FWD trade (blocked amount) 129,000	current account CZK 129,000
2b	1 August - if the client has CZK in a sub-account with CITFIN, the deposit amount can be recorded as follows:	receivable in CZK from the FWD trade (blocked amount) 129,000	reduction of the amount receivable in the CITFIN sub-account by 129,000
3.	September - extension of the FWD trade (termination of the originally concluded FWD trade)	liability in EUR 25.50* 100,000	receivable in CZK 2,550,000
4.	1 September - exchange rate gain	receivable in CZK from the FWD trade of the trade (blocked amount) 30,000	exchange gain (revenue) 30,000
5.	1. September - extension of FWD for another month (a new swap trade is concluded)	receivable in CZK 2,550,000	liability in EUR 25.50 * 100,000
6.	1. October - extension of the FWD for another month (termination of the previously concluded swap	liability in EUR 26.10 * 100,000	receivable in CZK 2,610,000
7.	1 October - exchange rate loss (expense)	exchange rate loss 60,000	receivable in CZK from the FWD trade (blocked amount) 60,000
8.	1 October - extension of the FWD for another month (a new swap trade is concluded)	receivable in CZK 2,610,000	liability in EUR 26.10 * 100,000
9.	**Settlement of the FWD trade**		
9a	1 November - client makes a payment in EUR	liability in EUR 26.10 * 100,000	current account EUR 26.10 * 100,000
9b	1 November - CITFIN sends the value of FWD to client trade and blocking account balance	current account CZK 2,610,000 + 99,000	receivable in CZK 2,610,000 + 99,000

For Sections 1, 3, 5, 6 and 8, off-balance sheet accounts may be used.
As a result of forward trades being swapped from the current exchange rate, exchange gains and exchange losses are accounted for on an ongoing basis. Exchange gains are included in revenues against the receivable from CITFIN, and exchange trade losses are included in expenses against the payable to CITFIN. The resulting exchange rate is always the same.