



Currency Forward with Window

Purchase or sale of foreign exchange at an agreed exchange rate with settlement of the exchange transaction within a window of 2 to 60 days, concluded for a maximum of 2 years.

Currency Forward with Window

A currency forward with a window is a financial derivative that can be used to hedge today's exchange rate, with settlement of the trade taking place at a future interval of several days (2 to 60 days). This interval, "window", is negotiated by the client at the time the exchange transaction is concluded.

Next month, I will receive euros from my business partner and will need to exchange them into crowns. Since I like today's exchange rate, could I use it to exchange my money on the day it arrives?

Client

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

Dealer

I don't know the exact date. I sent an invoice due in one month to my business partner yesterday. The money usually lands in my bank account a week before the due date.

Client

So let's arrange for a Forward with the window. You're saying that the exchange of euros into crowns happens one week before the due date at earliest, and in one month at the latest. Let's peg an exchange rate for a month and set a 10-day window at the same time, which allows you to settle the Forward at any time during this period for a pre-agreed rate.

Dealer

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

Client

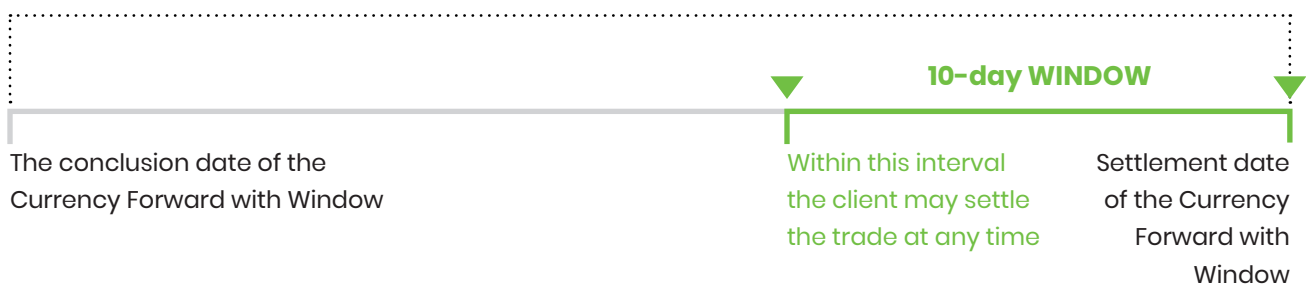
It's fine. We will simply move the due date of the futures trade with a Swap to a later date. And if by chance the money arrives earlier, i.e. before the pre-agreed 10-day window, we will move the settlement date again with a Swap, but this time to an earlier date.

Dealer

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

Client

1 month



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

Conclusion of a Currency Forward with Window

30 April

Window duration

10 days

FWD value in EUR	Exchange rate	FWD value in CZK	Window duration	Settlement date
100,000	EURCZK 25.80	2,580,000	10 days	21 May – 30 May

The paid deposit of 5% as of 30 April

CZK 129,000

(CZK 2,580,000 * 0.05)

Settlement of a Currency Forward with Window at the agreed settlement date

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 129,000

A client sends

EUR 100,000 to Citfin

Citfin sends the client

CZK 2,580,000 (CZK +129,000 from the deposit)

Settlement of a Currency Forward with Window at the agreed settlement interval (in a window)

The Currency Swap allows the client to settle the Currency Forward with Window within the window at a predefined exchange rate.

FWD value in EUR	Exchange rate	FWD value in CZK	Window duration	Settlement date
100,000	EURCZK 25.80	2,580,000	10 days	21 May – 30 May

Settlement date of a Currency Forward with Window within this window: 27 May

The paid deposit of 5% as of 30 April

CZK 129,000 (CZK 2,580,000 * 0.05)

Client wishes to settle the Forward as of

27 May

Current exchange rate

EURCZK 25.30

SWAP at the agreed interval

Swap No. 1 Client buys

EUR 100,000 at EURCZK 25.80 as of 30 May

Swap No. 2 Client buys

EUR 100,000 at EURCZK 25.80 as of 27 May

A client sends

EUR 100,000 to Citfin

Citfin sends the client

CZK 2,580,000 (CZK +129,000 from the deposit)

Settlement of a Currency Forward with Window prior to the agreed settlement date

The Currency Swap allows the client to settle the Currency Forward with Window prior to an agreed "window".

FWD value in EUR	Exchange rate	FWD value in CZK	Window duration	Settlement date
100,000	EURCZK 25.80	2,580,000	10 days	21 May – 30 May

Settlement date of a Currency Forward with Window prior to the agreed settlement date: 13 May

The paid deposit of 5% as of 30 April	CZK 129,000 (CZK 2,580,000 * 0.05)
Client wishes to settle the Forward as of	13 May
Current exchange rate	EURCZK 25.50

SWAP at the agreed interval

Swap No. 1	Client buys	EUR 100,000 at EURCZK 25.80 as of 30 May
Swap No. 2	Client sells	EUR 100,000 at EURCZK 25.795 as of 13 May

The difference between the originally hedged rate of EURCZK 25.80 and the current 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 at the beginning of the window on 21 May and on the settlement date 13 May. The difference between the current and original value of the trade = 2,580,000 – 2,579,500 = CZK 500

A client sends EUR 100,000 to Citfin
Citfin sends the client CZK 2,708,500

(EUR 100,000 * EURCZK 25.80 = 2,580,000, i.e., the original value of the Currency Forward with Window + deposit of CZK 129,000 – CZK 500 due to forward points = CZK 2,708,500)

Settlement of the Currency Forward with Window by swap transaction

If the settlement date of the Currency Forward with Window arrives and the client is not yet willing or able to settle this financial future on 30 May, the client will arrange a Swap whereby the client will "postpone" the obligation under the Currency Forward with Window to a future date, e.g. 01 July.

SWAP

Current exchange rate		EURCZK 25.30
Swap No.1	Client buys	EUR 100,000 at EURCZK 25.30 as of 30 May
Swap No. 2	Client sells	EUR 100,000 at EURCZK 25.28 as of 01 July

The difference between the originally hedged rate of EURCZK 25.80 and the current swap rate of EURCZK 25.30 is an exchange rate difference (exchange rate gain) by which the client's exchange rate depreciates but the deposit increases. The difference between the current rate of EURCZK 25.30 and the future rate of EURCZK 25.28 is determined by the 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 May and on 01 July.

Original value of the Forward = 25.80 * 100,000 = CZK 2,580,000

Current value of the Forward = 25.28 * 100,000 = CZK 2,528,000

Value difference = 2,580,000 – 2,528,000 = CZK 52,000

Cost of "postponement" of the trade due to forward points = CZK 2,000 (EUR 100,000 * CZK 0.02, i.e., the difference between the exchange rates of EURCZK 25.30 and 25.28)

Original deposit paid by the client = CZK 129,000

Current value of deposit after Swap = CZK 179,000 Deposit difference = CZK 50,000

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
Future value in EUR	EUR 100,000
Future value in CZK	CZK 2,580,000
The paid deposit (5%)	CZK 129,000

CZK weakens during the duration of the Financial Future

Current date	15 May
Current rate EURCZK	EURCZK 26.50
Current deposit	CZK 129,000 (2,580,000 * 0.05)

Original Future value	CZK 2,580,000 (EUR 100,000 * EURCZK 25.80)
Current Future value	CZK 2,650,000 (EUR 100,000 * EURCZK 26.50)
Potential loss	CZK 70,000 (CZK 2,650,000 – CZK 2,580,000)

Current coverage of the Future in CZK	CZK 59,000
(CZK 129,000 deposit – CZK 70,000 potential loss)	

Current coverage of the Future in %	2,29 %
(CZK 59,000 current coverage / CZK 2,580,000 original value * 100)	

How much of the deposit do you need to have with Citfin	CZK 199,000
(CZK 129,000 deposit 5% + CZK 70,000 potential loss)	

Deposit to be replenished	70 000 CZK
(CZK 199,000 deposit required – CZK 129,000 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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