Citfin

S citem pro finance

Currency Par Forward with Window

A series of Currency Forwards with different settlement dates for the same currency Par and a single exchange rate. For each of these futures, the settlement interval can be selected from 2 to 60 days.

Currency Par Forward with Window

It is a series of Currency Forwards with different settlement dates for the same currency Par and a single exchange rate, where the client can choose a window from 2 to 60 days for the settlement interval for each future contract.

> *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

> *I don't know any specific dates, but my business partner is going to send money in instalments for three invoices. The business partner will wire 100,000 euros in approximately a month, so I should have it in my account by the last week of that month. He'll wire another 60,000 euros in approximately two months. But it could be that I'll have it in my account a month earlier. In approximately five months, 10,000 euros will arrive. Again, the business partner may pay as much as two months earlier. If he sends the money earlier, it would be great for me if I was able to exchange it immediately.*
>
> Client

> So let's arrange for a five-month Currency Pair Forward with a window. You don't need to know the exact date. You're saying that the first exchange of euros into crowns will take place at the end of next month at the earliest, the next exchange in two months, with the understanding that the partner can send the money a month earlier, and the last exchange will be completed in five months at the latest, but you can receive the money two months earlier. So, let's peg an exchange rate for three futures trades and set a 10-, 30- and 50-day window at the same time, which allows you to exchange the money at any time during that period at a pre-agreed rate.
>
> 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...*
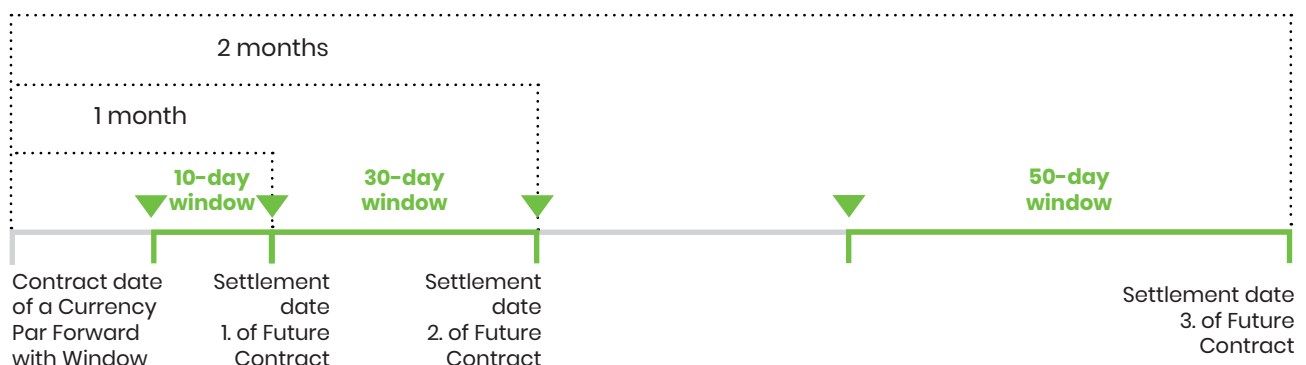>
> Client

> 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 10-, 30- and 50-day windows, 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 with Window the client buys CZK and sells EUR

Contract date of a Currency Par Forward with Window   30 April

Number of Forward trades within a Currency Par Forward with Window   3

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Window duration	Settlement date
No. 1	100,000	EURCZK 25.80	2,580,000	10 days	21 May – 30 May
No. 2	60,000	EURCZK 25.80	1,548,000	30 days	02 June – 01 July
No. 3	10,000	EURCZK 25.80	258,000	50 days	10 August – 30 September

Total value of Currency Par Forward with Window 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 with Window at the agreed settlement date

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Window duration	Settlement date
No. 1	100,000	EURCZK 25.80	2,580,000	10 days	21 May – 30 May

Forward settlement date (Current exchange rate: EURCZK 25.60)	30 May
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, i.e., proportion of the total deposit)**

Settlement of a Currency Par Forward with Window at the agreed settlement interval

The Currency Swap allows the client to settle the Currency Par Forward with Window within the window.

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Window duration	Settlement date
No. 1	100,000	EURCZK 25.80	2,580,000	10 days	21 May – 30 May

Settlement date of a Currency Par 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, i.e., proportion of the total deposit)**

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

The Currency Swap allows the client to settle his or her Currency Par Forward with Window before the selected "window".

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Window duration	Settlement date
No. 2	60,000	EURCZK 25.80	1,548,000	30 days	02 June – 01 July

The paid deposit as of 30 April	CZK 77,400 (CZK 1,548,000 * 0.05)
Client wishes to settle the Forward No. 2 as of	24 May
Current exchange rate	EURCZK 25.60

SWAP before the agreed window

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 May

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 02 June and on the settlement date on 24 May.
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 with Window + proportional deposit of CZK 77,400 – CZK 300 due to forward points = CZK 1,625,100)*

Settlement of the Currency Par Forward with Window by swap transaction

If the settlement date of the Currency Par Forward with Window 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 with Window to a future date.

Forward trade	FWD value in EUR	Exchange rate	FWD value in CZK	Window duration	Settlement date
No. 3	10,000	EURCZK 25.80	258,000	50 days	11 August – 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

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 deposit 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)

How 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   **CZK 70,000**
(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.

Citfin

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