



Standard Currency Forward

Standard Currency Forward is a financial derivative that can be used to hedge today's exchange rate for a specific date in the future.

Standard Currency Forward

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

Yes, I do. The business partner will send 100,000 euros on a specific date.

Client

You're saying that euros are exchanged into crowns always on a specific day of the month. So let's arrange for a five-month Standard Currency Forward. We will therefore fix today's exchange rate on the date you are going to make the exchange.

Dealer

I like that, but what if my money doesn't arrive as scheduled? Then I will not 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 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

1 month

Conclusion date of the Standard
Currency Forward

Settlement date of the Standard
Currency Forward

Conclusion of a Standard Currency Forward Contract – the client buys CZK and sells EUR

Conclusion date of the Standard Currency Forward 30 April

FWD value in EUR	Exchange rate	FWD value in CZK	Settlement date
100,000	EURCZK 25.80	2,580,000	30 May

The paid deposit of 5% as of 30 April CZK 129,000 (CZK 2,580,000 * 0.05)

Settlement of a Standard Currency Forward 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 the Standard Currency Forward before the agreed settlement date

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	Settlement date
100,000	EURCZK 25.80	2,580,000	30 May

Settlement date of the Standard Currency Forward before 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 before the agreed settlement date

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 current rate of EURCZK 25.80 and the future rate of EURCZK 25.795 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 13 May. The difference between the current and original value of the trade = $2,580,000 - 2,579,500 = \text{CZK } 500$

**A client sends
Citfin sends the client**

**EUR 100,000 to Citfin
CZK 2,708,500**

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

Settlement of the Standard Currency Forward by swap transaction

If the settlement date of the Standard Currency Forward 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 Standard Currency Forward to a future date, e.g. 17 June.

SWAP

Current exchange rate

EURCZK 25.50

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 25.29 as of 17 June

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 25.29 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 17 June.

Original value of the Forward = $25.80 * 100,000 = \text{CZK } 2,580,000$

Current value of the Forward = $25.29 * 100,000 = \text{CZK } 2,529,000$

Value difference = $2,580,000 - 2,529,000 = \text{CZK } 51,000$

Cost of “postponement” of the trade due to forward points = CZK 1,000

(EUR 100,000 * 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 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

$(CZK 129,000 \text{ deposit} - CZK 70,000 \text{ potential loss})$

Current coverage of the Future in %

2.29%

$(CZK 59,000 \text{ current coverage} / CZK 2,580,000 \text{ original value} * 100)$

How much of the deposit do you need to have with Citfin

CZK 199,000

$(CZK 129,000 \text{ deposit } 5\% + CZK 70,000 \text{ potential loss})$

Deposit to be replenished

CZK 70,000

$(CZK 199,000 \text{ deposit required} - CZK 129,000 \text{ current deposit})$

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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