

CYRRUS currency hedging

CONDITIONS FOR PROVIDING
CURRENCY FORWARDS AND SWAPS

CYRRUS

currency hedging

conditions for providing currency FX forwards

Keep your currency risk under control

As the currency of a small, open economy, the Czech koruna is, and will remain in the foreseeable future, one of the currencies most susceptible to fluctuations in times of uncertainty. We saw this both during the Covid pandemic and as a result of the war in Ukraine. The exchange rate of the domestic currency will continue to be influenced by global events and the sentiments of major foreign investors.

At the same time, the Czech economy is continuing to catch up with the West. The koruna has the potential to be stronger in the long term, but nervousness on the markets prevents it from reaching this potential. When we will see the koruna's stabilisation and subsequent strengthening currently depends on how quickly the CNB and the world's central banks (Fed and ECB) will lower rates.

If you don't want to bear the risk of koruna fluctuations, which are often associated with the fickle mood of global investors, take advantage of our currency hedging.

CURRENCY FORWARD

For hedging current investments
in foreign currencies

USD/EUR → CZK

This is a future exchange of a foreign currency (USD, EUR) into Czech korunas at a preset exchange rate. A specific volume of funds in a foreign currency are hedged towards a determined date.

CURRENCY SWAP

For hedging future investments
in foreign currencies

CZK → USD/EUR → CZK

This is a temporary loan of funds in one currency for funds deposited in another currency. You exchange your korunas for foreign currency and then Czech korunas again at a fixed exchange rate.

CYRRUS currency hedging



The floating exchange rate of the Czech koruna represents a currency risk at any moment for investments and cash denominated in a foreign currency.

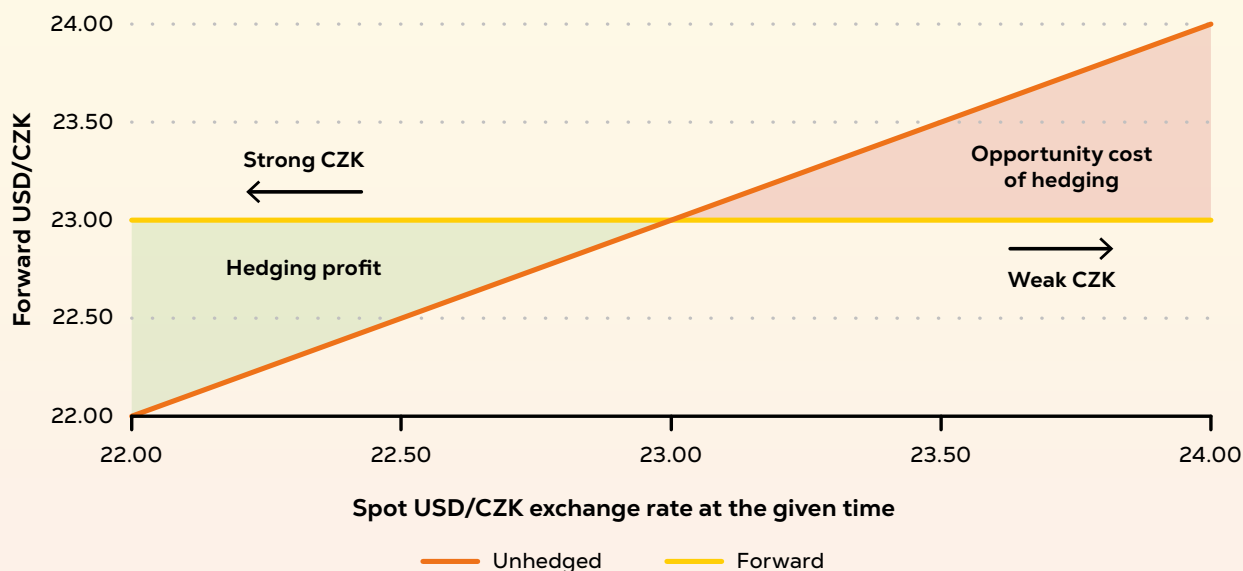


Our service allows you to eliminate the risk by concluding a forward/swap contract for a future date at a preset exchange rate.



Whether the price of the koruna falls or rises, you can be sure of the arranged exchange rate in the future. When the Czech koruna is expected to strengthen, you can exchange your foreign currencies for a better exchange rate.

Diagram of how a currency forward works



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Main advantages of currency hedging

- It allows you to easily secure your investment against currency fluctuations for an agreed period.
- The conditions and parameters of the contract are predetermined (no insecurity).
- You don't need to provide the entire insured amount, you can just make a deposit (applies to forwards).
- A forward (swap) contract can be shortened or extended with a swap.
- Our currency hedging service is always **FREE OF CHARGE**.

Disadvantages/risks

- By concluding the contract, the client loses the opportunity to take advantage of favourable movements in the exchange rate of the secured currency.
- Depending on market conditions, the forward rate may not be as favourable as the spot rate.

Conditions for arranging a forward/swap

The minimum hedge amount is EUR 10,000.

EUR and USD positions can be hedged.

CYRRUS requires a minimum deposit (financial collateral) of 5% of the hedged amount in cash in CZK for futures transactions.

The deposit to cover the trade must be in the CYRRUS account before the trade is concluded.

If the value of the deposit falls below 3%, the client will be instructed by CYRRUS to increase the deposit (margin call).

If the client does not increase the coverage at the request of CYRRUS, CYRRUS shall be entitled to close the position (margin close) if the value of the deposit falls below 1.5%.

No later than one day before the maturity date of the contract (t-1), the client must provide funds for the settlement of the contract or negotiate an extension of the contract. If the client fails to do so within the deadline, CYRRUS shall be entitled to close the position at t-1.



With a currency forward, I know that the income from my euro and dollar investments will not be affected by movements in the exchange rate.



Fees?

There are no fees for our service.

Example of a currency forward

(model situation)

As of 1 February 2024, the client has USD 100,000 on his account; he expects the CZK to strengthen and he wants to hedge the exchange rate for six months. The current USD/CZK spot rate is USD 1 = CZK 22.80, and the six-month forward rate is USD 1 = CZK 23.20.

1

A client concludes a six-month forward contract to sell USD 100,000 at a rate of USD 1 = CZK 23.20, with settlement on 1 August 2024.

2

When the contract expires, the client provides USD 100,000, and CYRRUS gives him CZK 2,320,000 back.

3

If the spot rate is lower than USD 1 = CZK 23.20 (CZK is stronger) when the forward expires, the hedge has 'paid off' for the client, otherwise he has experienced a loss, which must be viewed as the hedging cost.

Example of currency swap

(model situation)

The client has free CZK and wants to invest in USD for one year. He expects a significant strengthening of the Czech koruna above the current exchange rate of USD 1 = CZK 22.80.

1

The client buys USD 100,000 for the spot price and concludes a forward contract for the sale of USD 100,000 with settlement in one year at an exchange rate of USD 1 = CZK 23.60.

2

If the spot rate is below USD 1 = CZK 23.60 when the forward is settled, then the client has made a profit on the currency hedge. The difference between the buy and sell price is the hedging cost.

Conditions for hedging and terminating a trade

Typ of hedge (asset)	Initial hedged volume (collateral)	Margin call	Margin close
Finances	5%	3%	1.5%

validity from 1 February 2024

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ANALYTICS DEPARTMENT

JIŘÍ ŠIMARA	Brno	simara@cyrrus.cz	Structured Product Manager
JAKUB OBROVSKÝ	Brno	jakub.obrovsky@cyrrus.cz	Structured Product Analyst
JAKUB ŠVÁBENSKÝ	Brno	jakub.svabensky@cyrrus.cz	Structured Product Analyst
TOMÁŠ PFEILER	Praha	tomas.pfeiler@cyrrus.cz	Portfolio Manager

TRADING & SALES

LUKÁŠ PRAŽÁK	Praha	lukas.prazak@cyrrus.cz
DAVID KROUPA	Praha	david.kroupa@cyrrus.cz



800 297 787
free information line



www.cyrrus.cz



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