

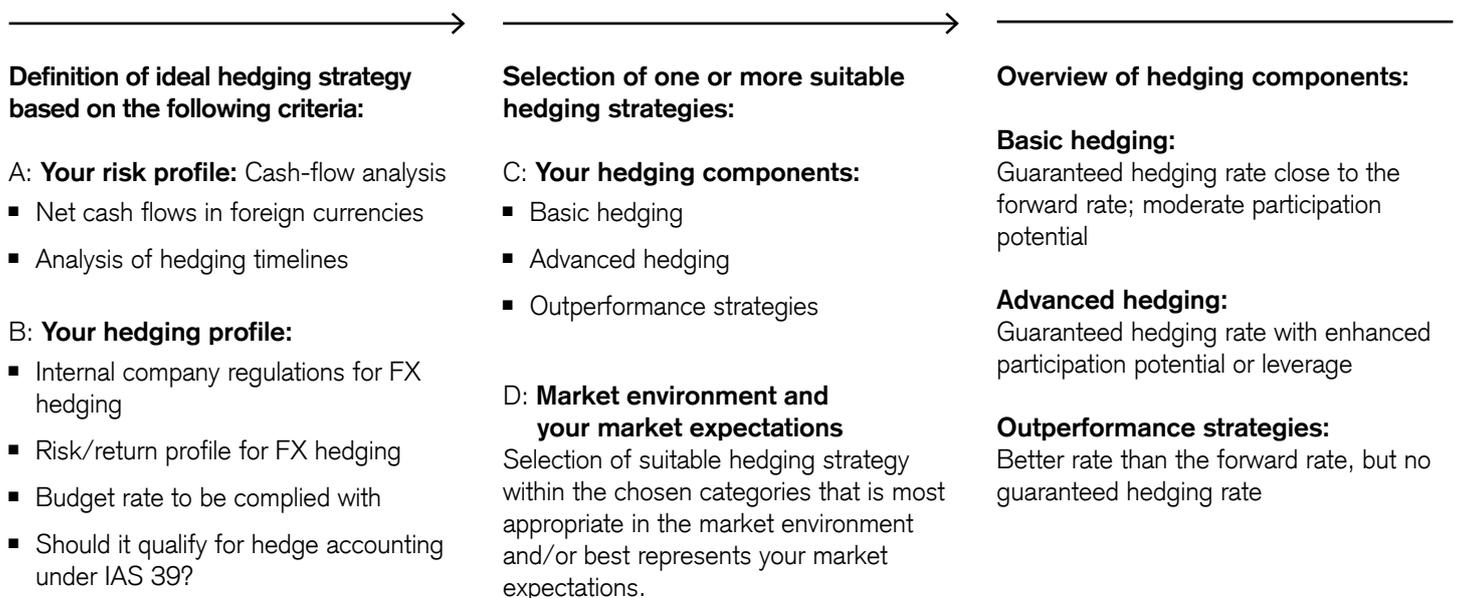
Successful currency management

Basic hedging

Does your company do business internationally? Companies that maintain business relationships with foreign business partners are exposed to the risk of fluctuating exchange rates. These fluctuations can significantly reduce the margin on the operating business of importers and exporters.

Hedging is a key element of active currency management. Your foreign exchange risk can be reduced through the strategic use of hedging strategies. However, in a market environment with low interest rates and increasing volatility, there are also interesting investment opportunities in the foreign exchange market.

We provide you with the right solution for every situation.



Definition of ideal hedging strategy based on the following criteria:

A: **Your risk profile:** Cash-flow analysis

- Net cash flows in foreign currencies
- Analysis of hedging timelines

B: **Your hedging profile:**

- Internal company regulations for FX hedging
- Risk/return profile for FX hedging
- Budget rate to be complied with
- Should it qualify for hedge accounting under IAS 39?

Selection of one or more suitable hedging strategies:

C: **Your hedging components:**

- Basic hedging
- Advanced hedging
- Outperformance strategies

D: **Market environment and your market expectations**

Selection of suitable hedging strategy within the chosen categories that is most appropriate in the market environment and/or best represents your market expectations.

Overview of hedging components:

Basic hedging:

Guaranteed hedging rate close to the forward rate; moderate participation potential

Advanced hedging:

Guaranteed hedging rate with enhanced participation potential or leverage

Outperformance strategies:

Better rate than the forward rate, but no guaranteed hedging rate

Basic hedging (example for a buyer)

Forward transactions (example for a buyer)

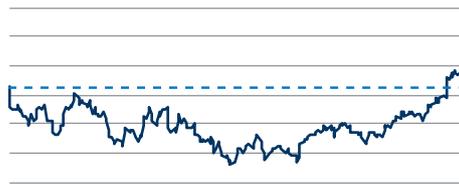
Irrevocable agreement on the forward exchange rate at trade date. A premium or discount on the spot exchange rate will result based on the interest rate differential. The forward transaction is frequently used as a reference in order to assess the return and risk of structured hedging solutions.

Advantages:

- Fixed hedging at forward rate

Disadvantages:

- Not possible to participate in favorable market developments



Forward rate

Risk reversal (example for a buyer)

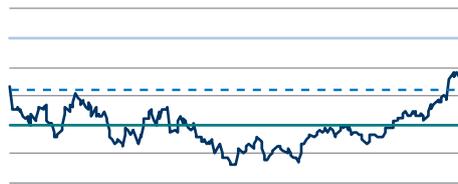
Fixed hedging at the upper strike (slightly above the forward rate) with a range in order to benefit from favorable market developments to the lower strike.

Advantages:

- Premium-neutral, simply structured hedging
- Participation to the lower strike level

Disadvantages:

- Limited participation



Upper strike
Forward rate
Lower strike

Knock into forward (example for a buyer)

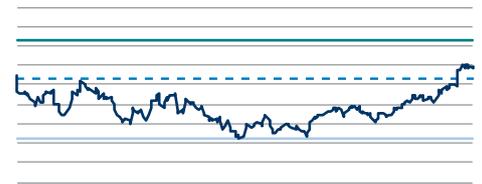
Fixed hedging at the strike (slightly above the forward rate) with a bandwidth in order to benefit from favorable market developments to the barrier. If the barrier is reached or exceeded, the client must buy at the strike price.

Advantages:

- Greater participation potential than with risk reversal, premium-neutral hedging

Disadvantages:

- Constant monitoring of the barrier; if the price drops too far and the barrier is reached, the purchase is made at the strike price



Forward rate
Strike
Barrier

Basic hedging (example for a seller)

Forward transactions (example for a seller)

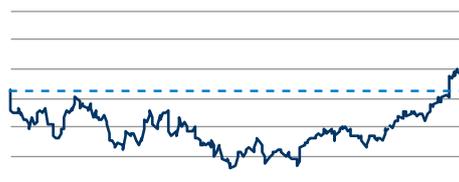
Irrevocable agreement on the forward exchange rate at trade date. A premium or discount on the spot exchange rate will result based on the interest rate differential. The forward transaction is frequently used as a reference in order to assess the return and risk of structured hedging solutions.

Advantages:

- Fixed hedging at forward rate

Disadvantages:

- Not possible to participate in favorable market developments



Forward rate

Risk reversal (example for a seller)

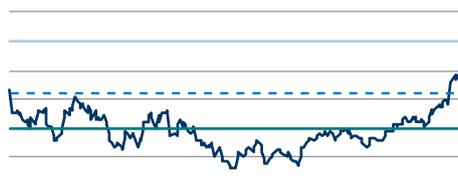
Fixed hedging at the lower strike (slightly below the forward rate) with a range in order to benefit from favorable market developments to the upper strike.

Advantages:

- Premium-neutral, simply structured hedging
- Participation to the upper strike level

Disadvantages:

- Limited participation



Upper strike
Forward rate
Lower strike

Knock into forward (example for a seller)

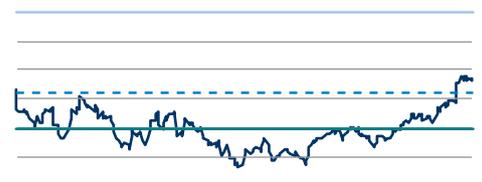
Guaranteed hedge at the strike (slightly below the forward rate) with a range in order to benefit from favorable market developments up to the barrier. If the barrier is reached or exceeded, the client must sell at the strike price.

Advantages:

- Greater participation potential than with risk reversal, premium-neutral hedging

Disadvantages:

- Constant monitoring of the barrier; if the price rises too far and the barrier is reached, the sale is made at the strike price



Forward rate
Strike
Barrier

For illustrative purposes only.

Source: Credit Suisse

Contact Us

Your advisor will be happy to arrange a personal consultation.

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From abroad: +41 31 358 64 90*

Mon. – Fri., 8:00 a.m. – 6:00 p.m.

You can also find additional information on our internet page:

credit-suisse.com/fx

* Telephone calls may be recorded.



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