Corporate Banking

CREDIT SUISSE

FX Survey 2020. Assessment of exchange rate developments.

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Successful currency management

Dear reader

Is the Swiss franc soaring? The weakness of global industrial production has especially affected the economic growth in Europe over the past year. Added to that was turbulence in the automotive industry and uncertainty as a result of the political discussions surrounding Brexit. However, an easing of the situation can be expected for 2020. This is because private consumer spending and the more relaxed monetary policy of the ECB should stabilize the economy in Europe, while prices in the euro zone keep rising – faster than in Switzerland. The lower inflation here at home leads to assumptions of an upward trend of the Swiss franc against the euro overall. Nonetheless, opinions are divided regarding exchange rate developments in 2020. After all, a slightly weaker Swiss franc is to be expected if the economic and political challenges in Europe unfold as expected.

The events of the past year and the outlook for the coming year highlight once again the fact that adjustments to monetary policy, as well as geopolitical and national policy events, have a direct impact on exchange rates. However, Swiss companies have demonstrated in the past that they know how to handle challenging foreign exchange situations – not least thanks to successful currency management. Hedging foreign exchange risks is crucial for companies that carry out any form of foreign trade or make transactions in foreign currencies. This is confirmed by the results of the latest survey of Swiss companies regarding their assessments of economic and exchange rate developments in 2020.

The forward transaction is and remains the most popular hedging product, allowing companies to increase planning security and focus on their core business. However, there is no universally valid solution for currency hedging. Selecting the appropriate hedging solution depends on various factors, such as the company's risk ability and appetite. Each hedging instrument has its advantages and risks. With our regional advisory approach with regard to foreign exchange trading, as well as our innovative and wide-ranging solutions, we at Credit Suisse have the ability to fully understand our clients and meet their specific expectations.

Dear readers, join us on our voyage across the foreign exchange market. Learn more about currency hedging options from our experts and gain insight into the hedging strategies of Swiss companies through fascinating client interviews.

I hope we can provide you with interesting information for your business activities and that you enjoy reading this issue.

Didier Denat
Head of Swiss Corporate Banking

Visit us online at credit-suisse.com/fx.

Hedging against specific risks

Leif Woodtly, Head of FX Sales, speaks about various factors that influence currency hedging and gives his assessment of how the business could grow over the next few years.

The continued strength of the Swiss franc has caused trouble for our export-oriented corporate clients in recent years. Things were no different last year. That is because a strong franc has a direct impact on the pricing and competitiveness of Switzerland. We recently talked to many clients about the monetary policies of the major central banks, the associated negative interest rates, international trade disputes, and the significance of these issues for the Swiss economy. The ongoing concerns about the development of global economic growth and the numerous geopolitical risks have become further heightened in recent months. Given that fact, we are noticing that our clients are growing increasingly worried about trends in the foreign exchange markets and are actively taking steps to strategically hedge against their foreign exchange risks.

It is true that currency hedging is a conventional business, but the markets have undergone a fundamental change since the start of the financial crisis. They have frequently been shaken by geopolitical events and constantly shifting impulses. The volatility of financial markets and the growing influence of policymakers demand corresponding and consistent hedging. Very often, our clients still opt for basic hedging products like forward transactions in order to manage their foreign currency positions. However, methods of hedging that enable them to profit from exchange rates to a certain extent if a rate moves in the market participants' favor are also becoming increasingly popular. Dual currency deposits have become an important subject in light of the negative interest rate environment. They allow clients to earn a better interest rate achieved through the conversion risk they take.

However, business owners in Switzerland are also keeping up with the times. They are increasingly taking advantage of digital offerings and following market developments online. Thanks to the digital revolution, the options for hedging foreign exchange risks have become more easily accessible to all companies, regardless of size. Today, our clients can take action more independently, choosing on their own those services for which they do not need to consult the bank. A company can use the Credit Suisse foreign exchange platform, for example, to carry out the appropriate hedging by itself.

Market-related news spreads across the numerous online channels much more rapidly than before. The result is that all market participants receive timely information about current events and price developments. That, in turn, has increased competition and transparency on the foreign exchange market. In order to remain competitive internationally, companies now have to work efficiently and innovatively. That is why many clients regularly allow us to give them detailed advice on determining their strategy. That way, they do not put the profitability of their business at risk by unnecessarily exposing it to currency fluctuations. Therefore, personal advice remains hugely important. Companies should still have the option of discussing the elements of their hedging strategy or even certain fundamentals of hedging, such as the scope, timing, duration, or the most effective method of hedging, in person with the bank anytime, now and in the future. That is the only way to find the optimum strategy for each company and assist them by making their business more predictable.

If there were another revaluation of the Swiss franc, greater attention would once more be paid in general to safeguarding the competitiveness of Switzerland's export enterprises. Because of the high quality of Swiss products, we are still home to some of the world's leading companies in various industries. Many of these clients are deliberately investing in digitalization, in maintaining their strategic innovativeness, and in new technologies for manufacturing goods. Nevertheless, an excessively strong Swiss franc could cause Switzerland to lose some of its competitiveness in spite of its strong position. It is therefore crucial for them to plan ahead and hedge currency risks in order to make their business as predictable as possible.

Three questions for Leif Woodtly

What can clients expect from Credit Suisse in the area of currency hedging?
Clients are typically concerned about having the most reliable basis for planning over the next 6 to 18 months. We can help them do that by showing them different approaches and solutions for dealing with foreign currencies. One of our strengths is addressing the client's individual needs and situation. That enables us to offer them advice in the right language.

What makes advisory services at Credit Suisse unique?
We are able to cover every aspect of global currency trading directly and independently within our group. While other banks and financial institutions have to partner with additional providers, we possess the know-how to be able to cover all needs. Since we at Credit Suisse have the full range of expertise on the foreign exchange market, we can also devise complex solutions for our clients quickly. That makes us highly flexible and professional when it comes to advisory services.

Credit Suisse operates in foreign exchange trading with a decentralized, that is, a regional, approach at five locations. Because we strive for long-lasting partnerships in a spirit of trust with our clients, this proximity is very important to us and our clients. We need to know and understand our clients' businesses so we can precisely address their concerns. Our commitment to service demands that every company have access to a regionally based currency expert whenever needed. For this very reason, we take a regional approach to advisory service and can thus provide our clients with the best possible and comprehensive support for their foreign exchange planning.

Do the various regions exhibit differences in mentality that have an effect on their hedging strategy?
We have not noticed any regional differences in that area. As a rule, Swiss companies are very similar when it comes to handling currency risks. There are, of course, linguistic differences in Switzerland. It is especially important for us to be able to discuss the sometimes complex needs and solutions with our clients in their local language. There are also entire industries that are very firmly rooted in their regions. Local experts who know those industries can offer their clients corresponding benefits.

Leif Woodtly began his career at Credit Suisse in 1992. Since 2013, he has been responsible for foreign exchange business for corporate clients in Switzerland. For that purpose he operates five locations in Geneva, Basel, Zurich, Lugano, and St. Gallen.

Respondents do not expect an appreciation of the euro

More than half of respondents anticipate a stable development of the Swiss economy in 2020. According to the companies surveyed, the euro should be worth around CHF 1.09 by the end of 2020. Of these same companies, a significant share (43%) hedge against foreign exchange risks.

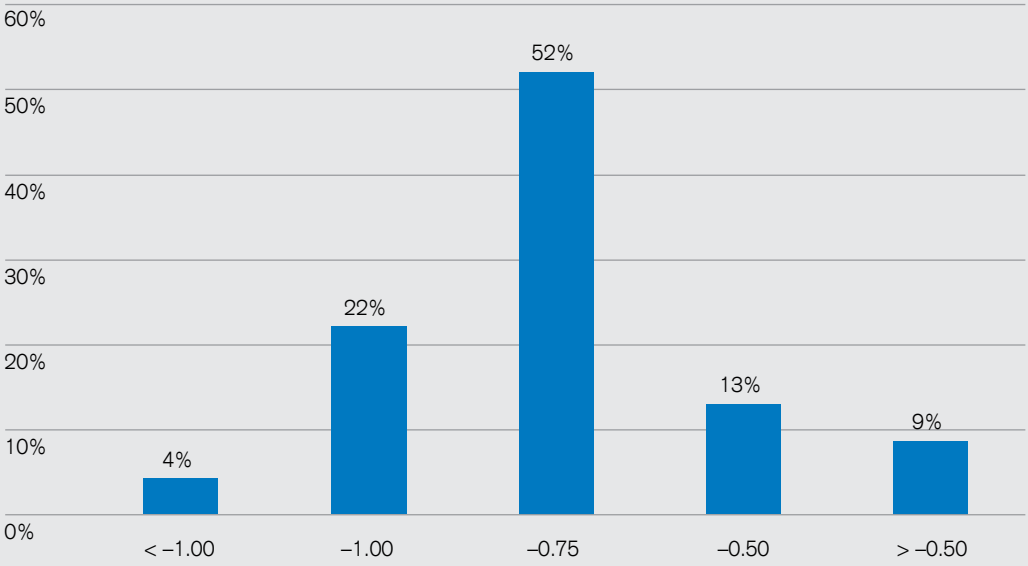
1,280 respondents
For the fourth time, we surveyed our corporate clients on their assessments of economic and foreign exchange developments for the coming year. In 2019, the number of respondents was a record high of 1,280. In this context, it should be noted that the vast majority of companies surveyed carry out foreign trade in one form or another; that is, we are mainly dealing with exporters and importers. Only slightly more than 10% of participants focus on the Swiss domestic market. In contrast, the industrial and service sectors are equally represented.

Almost half of respondents expect a move by the SNB in 2020
Respondents from the service sector are more optimistic about general economic developments than respondents from the industry sector. The former expect a weakening of economic growth in 34% of cases, while 41% of the latter do so. Overall, a little more than half of respondents (52%) anticipate stable GDP growth and only 11% expect growth acceleration. We therefore assume that, in 2020, the Swiss GDP should benefit from sports events and a stabilization of the world economy and thus anticipate a slightly higher GDP growth rate in 2020 (see next chapter). For interest rate developments as well, a majority of respondents (52%) do not expect any change and therefore anticipate that the policy rate of the SNB will (still) be -0.75% at the end of 2020 (see fig.). At the same time, at least 26% expect another interest rate cut and 22% an interest rate hike.

Companies do not expect a strengthening of the euro
As a result of the weakening of global industry, respondents assume that the euro will level off at CHF 1.09 by the end of 2020 (CS forecast: CHF 1.15) (see fig.). They are thus forecasting a lower value than that of the previous year for the second year in a row – and they were right last year. The development of the GBP against the CHF is also viewed more skeptically than in the last survey. In the current survey, which was conducted between September 23 and November 8, 2019, respondents anticipate that the British pound will be worth around CHF 1.21 by the end of 2020 (CS forecast: CHF 1.40). The forecasts for the US dollar are not very volatile, have changed little since the end of 2018, and remain at around CHF 0.99 (CS forecast: CHF 1.00). These forecasts regarding foreign exchange developments are largely identical to the values that respondents have used for their annual budget preparation.

52% expect an unchanged SNB rate by the end of 2020

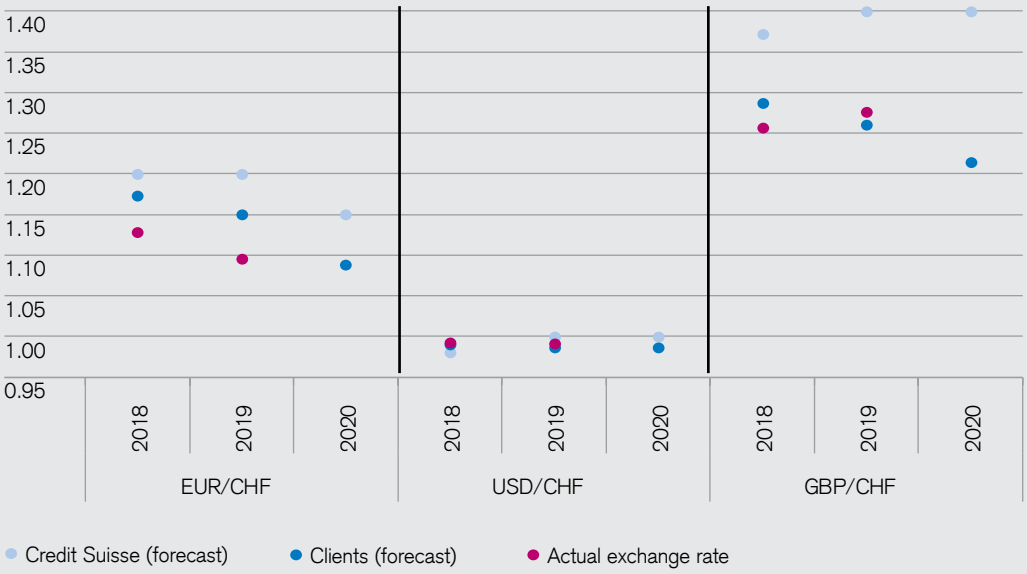
"What is your forecast for the SNB policy rate as of the end of 2020?" Share in %



Source: Credit Suisse FX Survey 2020

Appreciation of the euro by the end of 2020 is not expected

Exchange rate forecasts and actual exchange rates for the corresponding year end (December averages)



Source: Credit Suisse FX Survey 2018 – 2020, Credit Suisse

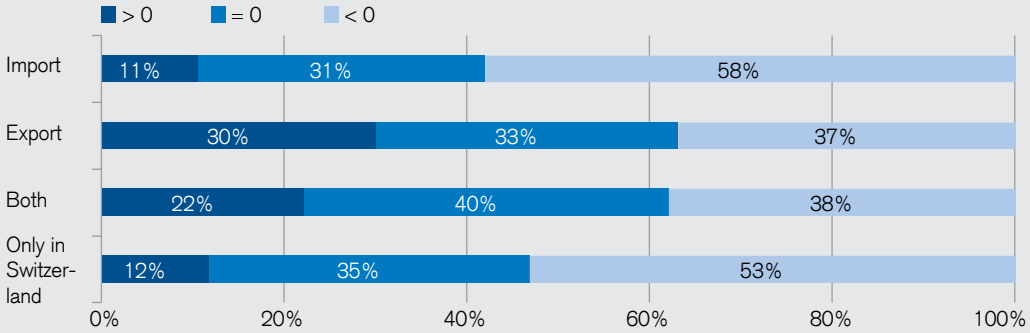
Difference between euro forecast and budgeting
When calculating the difference between the indicated EUR/CHF forecast of the companies surveyed and the exchange rate they use to establish their budgets, it appears that importers tend to budget with a slightly stronger euro. This means they are being deliberately cautious. Companies focused on the Swiss domestic market behave in a similar manner. In contrast, there are no discernible patterns for exporters and companies that work in both export and import.

Hedging of importers and exporters
Among respondents, 43% actively hedge against foreign exchange risks. On average, this hedging covers 62% of the foreign currency transactions. In this context, there are certain differences between typical importers and exporters. For instance, the share of importing companies that hedge against foreign exchange risks is, at 47%, higher than that of exporting companies (40%). A total of 40% of strictly domestic market-oriented respondents also hedge. This indicates that they, too, carry out certain transactions in one or more foreign currencies. Companies that both export and import have the highest rate of hedged risk at 67%.

Hedging of industrial companies and service providers
Service providers and companies in the industry sector are equal with regard to the share of companies that hedge against foreign exchange risk at 43% each. However, a closer examination shows that companies from the service sector cover a greater share of their transactions in foreign currency (67%) through hedging than companies from the industrial sector do (56%). Meanwhile, our survey from last year has shown that industrial companies are slightly more often naturally hedged against currency fluctuations against the USD than service providers, since they carry out more purchase transactions than sales transactions in USD. This could be part of the reason why the hedging share is slightly lower among exporters.

Importers budget cautiously

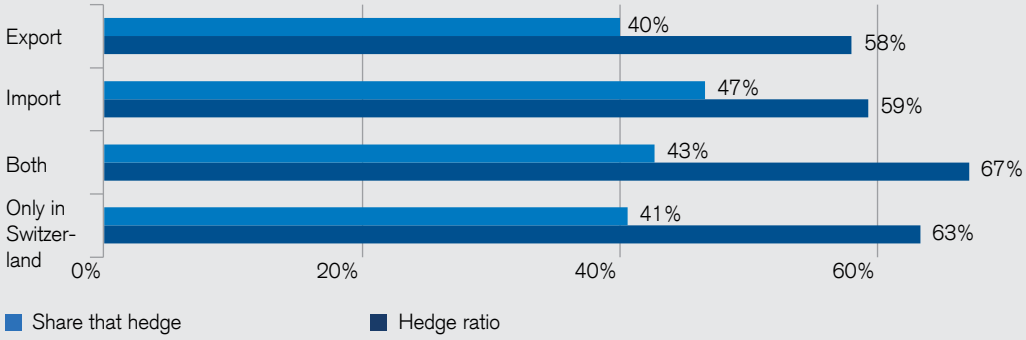
Difference between the EUR/CHF forecast for end of 2020 and budget value, share of companies



Source: Credit Suisse FX Survey 2020

Domestic market-oriented companies are also hedging

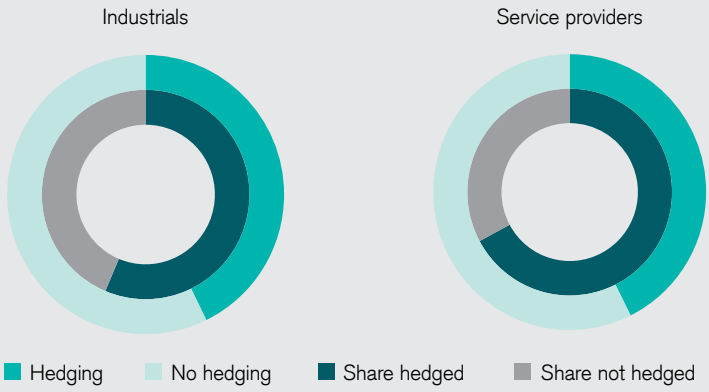
"Do you hedge your foreign exchange risk?" "If so, what is your hedge ratio?" Answers from companies by foreign trade activity



Source: Credit Suisse FX Survey 2020

Service providers with a higher hedge ratio

"Do you hedge your foreign exchange risk?" "If so, what is your hedge ratio?" Answers from companies by sector



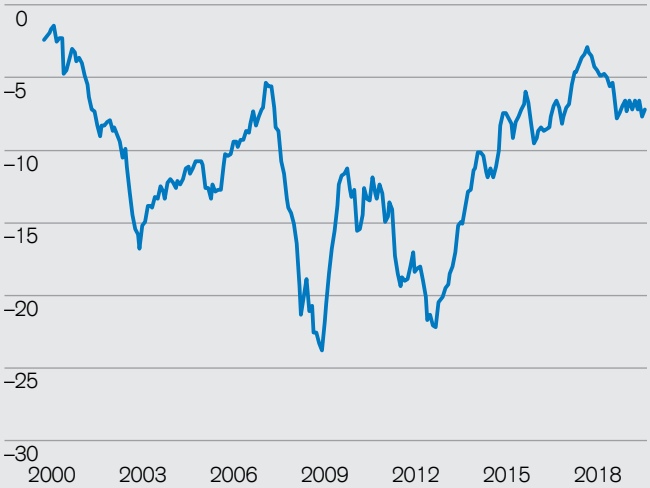
Source: Credit Suisse FX Survey 2020

Credit Suisse forecasts for 2020

Europe
Europe has suffered disproportionately from the weakness of global industrial production while homemade problems, such as those in the automotive industry or the disputes around Brexit, have simultaneously weighed on economic growth. The improvement we expect should therefore have a noticeably positive effect. Furthermore, the outlook for consumer spending remains good. Thanks to low unemployment and growing real wages, households are in the mood to buy. Furthermore, the relaxed monetary policy of the European Central Bank (ECB) is having a supportive effect and even countries such as Germany are considering more government spending.

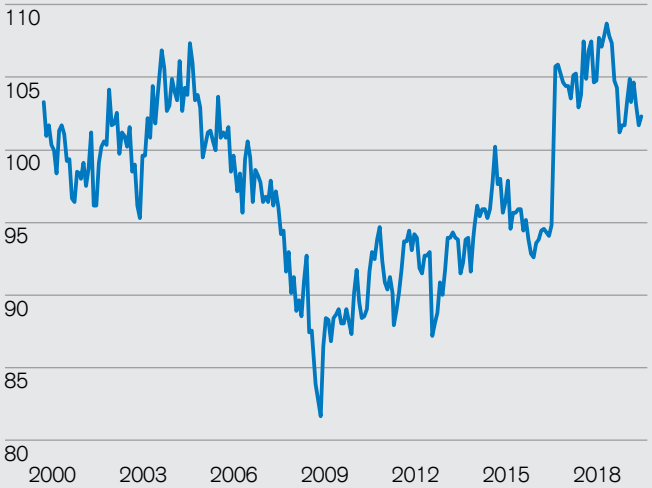
United States
The trade dispute between the US and China is weighing on world trade and the strongest setbacks in global industrial production were recorded directly after the tariff increases. However, it does not seem to have significantly dampened the mood of US companies. The business trend indicator for small US companies remains significantly above its long-term average. The comparatively significant strength of the US economy is supported by the once again more relaxed monetary policy of the US central bank, the Federal Reserve. After three interest rate cuts in 2019, there will now likely be a break until further notice.

Optimism in European households
Consumer mood, index



Source: Datastream, Credit Suisse

Small US companies remain optimistic
Small company business trend indicator in the US



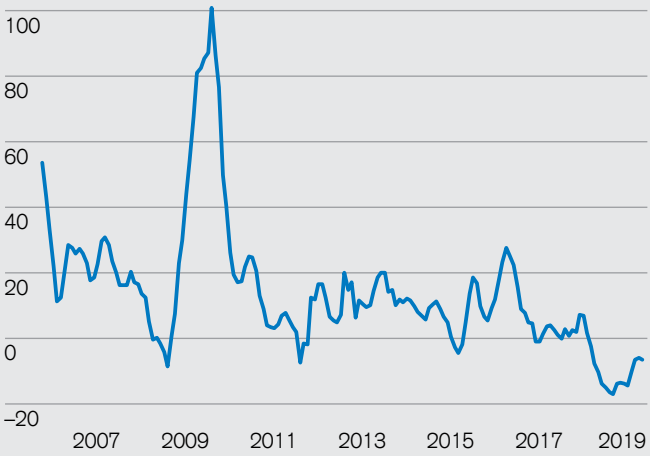
Source: Datastream, Credit Suisse

Credit Suisse forecasts for 2020

China
Growth in China will likely slow down slightly once again in 2020. In this context, the growth slowdown is not just a consequence of the trade dispute with the US: Consumption is also weakening in China itself. For instance, auto sales in China have been decreasing for around a year – a reflection of gloomy consumer sentiment in China. One of the causes of this is the high real estate-related indebtedness and the related debt servicing. The central bank and the government will likely compensate for an excessive weakening of growth through credit stimuli or easing measures.

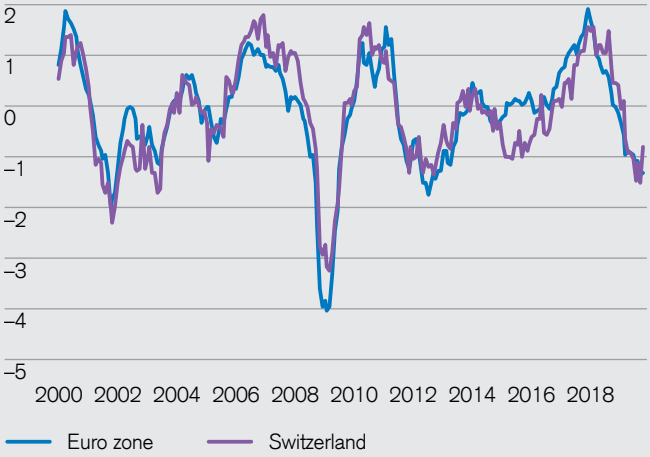
Switzerland
The Swiss economy should grow more in 2020 than in 2019. However, part of this higher growth for 2020 is due to licensing income for corresponding sports associations based here in Switzerland for the summer Olympic Games and the European soccer championship – income that has little impact on the overall economy. The main driver of domestic economic development remains private consumption, while export growth should remain modest. Construction investment is also supported by low interest rates, but is simultaneously hampered by the growing oversupply on the rental housing market.

Decreasing auto sales in China
Change in auto sales in China compared to previous year, smoothed over three months



Source: Datastream, Credit Suisse

Swiss industry is suffering from the industrial weakness in Europe
Purchasing Managers' Indices (PMI) for industry, standardized
(0 = average since January 2000)



Source: PMIPremium, Datastream, Credit Suisse

USD/CHF exchange rate

Over the course of 2019, the USD index, which measures the value of the USD against six currencies, has significantly increased. The appreciation has been especially strong against the euro, since the European single currency is disproportionately suffering from global industry weakness, while the rate against the CHF developed sideways. In the shorter term, we see further potential for the US dollar due to the continued higher interest rate level in the US compared to the euro zone and a continuing sideways trend against the CHF. However, if the global economic situation improves as expected over the coming year, the USD will once again weaken against the EUR.

EUR/CHF exchange rate

For a long time, the key factor for the EUR/CHF rate has been global risk sentiment. As long as weak economic data and political uncertainty weigh on the EUR, the CHF remains propped up. However, the Swiss National Bank (SNB) can limit the resulting appreciation pressure through foreign exchange market interventions. If political and economic risks decrease somewhat over the course this year as we expect, a slightly weaker CHF should again be anticipated.

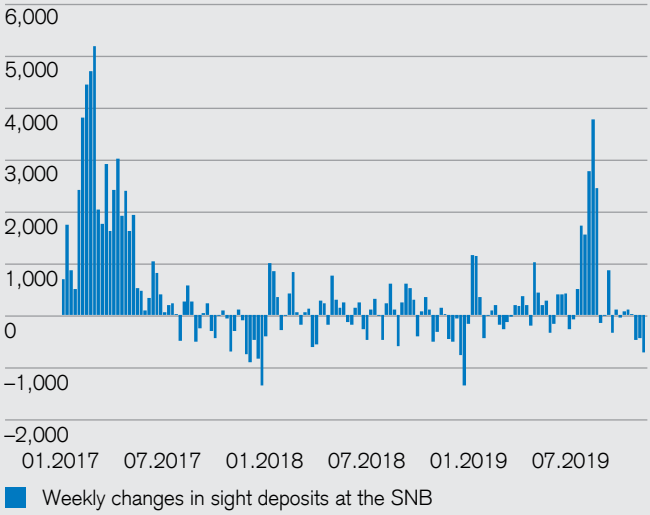
USD index has strongly increased

Index (Jan. 1, 2016 = 100)

Source: Datastream, Credit Suisse

SNB intervened in mid-summer 2019

In CHF (millions)



Source: Datastream, Credit Suisse

You cannot invest in an index. The index returns shown are not the results of actual trading of investable assets/securities. Investors pursuing a strategy analogous to an index can achieve lower or higher returns, and have to take into account the associated costs.

Plan early and hedge your currency risks

Anja Burford, Head of FX Sales for SMEs, explains how Swiss companies hedge against fluctuating exchange rates and when it makes sense to optimize.

Ms. Burford, is there such a thing as the perfect method of currency hedging for every client?
The perfect method of currency hedging does not exist because every company works differently and has different expectations when it comes to hedging its currency risks. Since products in the area of foreign exchange trading can be tailored to meet the needs of our clients, there is an appropriate means of hedging for every situation. The key factor is what goals the client wishes to achieve. Take, for example, a foreign currency buyer. Does the client only want to hedge against rising rates? Would the client like to benefit from falling markets despite being hedged? Or does the client wish to take a risk and buy the currency at a favorable rate?

Do clients hedge enough against currency risks?
To some extent. Over the past ten years, we have repeatedly seen clients reacting to market movements instead of taking a proactive approach to currency hedging. In other words, when the market rises rapidly, we notice serious interest on the part of buyers, and vice versa: sellers become more active when the market comes under pressure. However, we believe that early planning and analysis of currency risks are crucial. The reason is that it often becomes impossible to meet every goal when clients have to react under pressure.

Which products do clients use for hedging most often?
Forward transactions are still the most popular product. However, we have also seen increased interest in other hedging strategies, such as participating forwards, over the past few years. They offer buyers a fixed hedging rate and a reliable basis for planning, for instance, while the client gets to profit from falling markets to a certain extent. However, this product is becoming less and less popular, because clients want a greater ability to optimize. As a rule, we always advise clients to employ a variety of products that will protect them from unfavorable market movements.

When does optimization make sense for a company?
Optimization generally makes sense when markets are relatively calm and can be highly attractive for clients. The risk that comes with optimization should not be underestimated, however. That is because optimization is not hedging. It is important for clients to tailor optimization to their company's strategy. We normally recommend that they carry out optimization only for part of what they require. That means the process is mainly suitable for companies that have a sufficiently large demand for foreign currencies or Swiss francs.

In some Swiss SMEs, foreign currencies make up only a small part of their turnover. Can companies like that forgo currency hedging?
Currency hedging is worthwhile for any company, regardless of size. Even small amounts can easily be hedged. More complicated hedging strategies or approaches to optimization only make sense when a company reaches a certain size. In addition to forward contracts, there are other products available such as limited orders or dual currency deposits. The local approach we take through our branches in the various regions enables us to be close to our clients and discuss the various options with them.

Anja Burford is Head of the FX Desk for SMEs and Banks. She has been with Credit Suisse for 13 years.

The best of both worlds?

Risk reversal – an exciting alternative to the classic forward contract that offers the possibility of benefiting from advantageous market movement

Hedging, but how?
Exchange rates fluctuate – sometimes more, sometimes less. For instance, the British pound experienced a sharp depreciation in June 2016 as a result of the Brexit referendum. In contrast, the Swiss franc appreciated massively with the abolition of the EUR/CHF minimum exchange rate in early 2015. Both can present problems to companies that have business relationships abroad. These fluctuations can significantly reduce the margin on the operating business of importers and exporters.

Currency hedging allows companies to increase planning security and focus on their core business. The most frequently used hedging instrument remains the forward contract. With a forward contract, companies set the exchange rate for a specific date in the future in advance, thereby hedging against exchange rate fluctuations.

The forward contract may protect against unwelcome rate movements. But what happens when the rate develops in favor of the company? Here, the risk reversal can be seen as an attractive alternative to a forward contract.

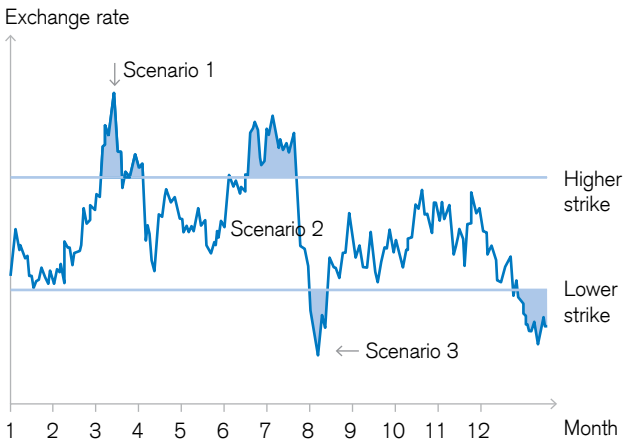
Benefit from favorable rate developments with risk reversal
Risk reversal is a conservative hedging instrument that offers complete protection against currency losses without paying a premium. Specifically, it enables a company to hedge at a predefined rate while simultaneously being able to benefit from a favorable market move to a certain cap level.

The lower and upper strikes define a bandwidth. The strikes are either the hedging rate or the upper/lower limits – depending on whether the company is the seller or the buyer of the currency pair.

At each maturity, the following scenarios may occur: example for a currency pair buyer (e.g., import company).

- Scenario 1 – If the exchange rate exceeds the upper strike, the company purchases the nominal amount at the upper strike and is hedged against any further rate increase.
- Scenario 2 – If the exchange rate is equal to or less than the upper strike and exceeds the lower strike, no transaction takes place. The company can trade at the current market price.
- Scenario 3 – If the exchange rate is equal to or less than the lower strike, the company purchases the nominal amount at the lower strike and is limited to that level.

Example for a buyer (import company)



For illustrative purposes only

Case study

A Swiss company that imports products from the US wishes to hedge its currency risk on a monthly basis. The company now has the following choice:

Option 1: Forward transaction

Spot rate	0.9930
Average forward points	-0.0130
Average forward rate	0.9800

The company buys USD against CHF on a monthly basis using forward contracts. The average forward rate (spot rate minus the forward points, which can be calculated using the interest difference between the two currencies) comes to 0.9800.

Option 2: Risk reversal

Spot rate reference	0.9930
Forward rate reference	0.9800
Bandwidth	
Upper strike	0.9980
Lower strike	0.9600

The company buys USD against CHF on a monthly basis using a risk reversal. The upper strike reaches 0.9980 and the lower strike reaches 0.9600.

If the company now expects a significantly higher USD/CHF exchange rate, a forward contract is the more appropriate hedging. In contrast, if the company expects a stable or even weaker USD/CHF exchange rate, a risk reversal is the more attractive product. The company can benefit from a weaker USD down to the lower strike level at 0.9600 without having to forgo hedging (worst-case rate of 0.9980).

Comparison of the two products (example of a currency pair buyer)

	Forward contract	Risk reversal
Type of product	Basic hedging	Basic hedging
Hedging protection	Full hedging	Full hedging
Premium payment	None	None
Participation	No	Yes
Best-case rate	Forward rate (0.9800)	Lower strike (0.9600)
Worst-case rate	Forward rate (0.9800)	Upper strike (0.9980)
Market expectation	Stable or higher exchange rate	Stable or lower exchange rate

Due to the large fluctuations and the uncertainty on the foreign exchange market, hedging appears expedient in virtually all cases. Which hedging solution should be used, however, depends on various factors. Along with the type of business activity, the main focus is on risk ability and appetite. Each hedging solution has its advantages and risks. To find the suitable hedging instrument that meets your needs, please contact our specialists in the various regions.

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Myth of the perpetually overvalued Swiss franc

The CHF tends to appreciate against the EUR, mainly because prices in Switzerland increase more slowly. Currently, the CHF is overvalued by around 10%. However, this overvaluation is a newer phenomenon; in the long term, exporters benefited from favorable currency conditions.

In order to determine the fundamentally justified value of a currency, economists use what is called "fair value." The simplest approach for this determination is the concept of purchasing power parity. If the exchange rate between two currencies is within purchasing power parity, this means that, with a currency unit, the same commodity basket can be acquired in both currency areas (e.g., a standardized Big Mac in the eponymous comparison index). However, the forces that drive exchange rates on the foreign exchange markets toward purchasing power parity are weak. Firstly, because households dedicate much more than half of their consumer spending to non-tradable goods and services, such as haircuts, rent, or healthcare, for which there is very little to no international price arbitration. Secondly, because currencies are also held as financial investments. The risk and reward assessment of investors can move the value of a currency away from the purchasing power parity value for a long time.

Purchasing power parity as a starting point for the "fair value "of a currency
For this reason, the fair-value calculations of Credit Suisse are based on an expanded purchasing power parity model that also includes the determining factors of such risk and reward premiums for a currency. According to our models, the fair value of the CHF versus the EUR is currently 1.22. The CHF is therefore overvalued by around 10% against the EUR. But this was not always the case: Between 2003 and 2010, the EUR/CHF exchange rate was actually much higher than what would have been appropriate in accordance with the fair value at the time. The CHF was therefore undervalued against the EUR for many years – a period in which the Swiss economy enjoyed incredibly cheap currency conditions. The likelihood is that some of the capacity recently lost, especially in the export industry, under the pressure of an overvalued Swiss franc, was built up during those favorable years.

Low inflation helps Switzerland in international trade
The fair EUR/CHF exchange rate also tends to decrease: since 2002, it has fallen by around 20%. This decrease reflects the fact that the Swiss economy is getting gradually better at coping with a EUR/CHF rate closer to parity. The main driver behind this adjustment is the differing inflation development in Switzerland and the euro zone. For years now, prices in the euro zone have been increasing faster than in Switzerland. Meanwhile, risk and reward premiums have exercised, especially during the financial and debt crisis, substantial fundamental appreciation pressure on the CHF. These drivers, however, have recently weakened significantly.

Fair value should decrease to the current exchange rate value

We expect that inflation in Switzerland will remain lower than in the euro zone in the future. In this case, the EUR/CHF fair value would continue to gradually sink, or the CHF would become fundamentally stronger against the EUR. According to our forecasts, the fair value should be equal to the current EUR/CHF exchange rate in around five years. The foreign exchange markets are therefore, to a certain extent, anticipating the fundamental appreciation.

Tailor-made hedge to your underlying strategic transaction

How it works
FX risk arises often in a cross-border M&A situation where clients are exposed to currency fluctuations between signing and closing. M&A projects are often subject to closing conditions and, even if the closing probability is high, the FX risk should be hedged with the appropriate structure.

Vanilla products do not fully mimic the closing risk and expose clients to unwind risk or costs if the deal fails to close. Credit Suisse can offer a deal-contingent hedge which fully mirrors the closing mechanics and involves no unwind risk if the M&A transaction fails to close.

Your needs
FX risk can arise from any of the following strategic transactions:
- M&A situation
- Debt financing
- Refinancing/repayment of debt
- Equity raising
- IPO

What you should know about the deal-contingent hedge
Credit Suisse can offer to mitigate various types of risks such as:
- Signing to closing
- Commitment to closing
- Syndication to closing
- Facilitation of closing flow of funds

For whom is the deal-contingent hedge suitable?
Clients who are active in a cross-border strategic transaction with a FX risk exceeding approximately USD 50 mn.

Your benefits at a glance
- FX hedge tailor-made to the underlying transaction
- No upfront cost
- Settles when/if the deal settles (flexibility in timing)
- No unwind cost if deal does not materialize
- Immediate access to the hedge once deal materializes

Possible risks
One possible risk associated with a strategic transaction is that the deal does not materialize. However, in this scenario the hedge is unwound at no cost for the client. Once the client has notified us of the closing, the contingent hedge is transformed into a spot transaction and settled as such. Therefore, the only risk is the settlement risk when the deal closes and the hedge is transferred from Credit Suisse to the client.

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* Please note that telephone conversations may be recorded. By making a call, you acknowledge your agreement with this business practice.

Agreement	Rate fixing	Closing
We enter into the hedge at no upfront cost. The risk (position) sits with Credit Suisse.	The rate is fixed according to the pre-agreed schedule and if the deal closes.	

What happens between signing and closing the agreement?

Any potential combination of:

- regulatory/antitrust approval
- stakeholder approval
- investor demand
- material adverse change
- force majeure
- etc.

The above criteria determine whether the hedge is transferred or unwound.

Deal closes	**Hedge is transferred from Credit Suisse to the client**
Deal does NOT close	**Hedge is unwound at Credit Suisse's cost (no premium or liability for the client)**

The deal-contingent hedge allows clients to pre-agree to a FX rate without obligation until the deal closes.*

* Pricing and capacity will depend on our internal due diligence process and approvals.

Currency hedging. Not an easy game in the travel industry.

The travel industry is not afraid of adventure. Beat Walser, travel expert and entrepreneur, prefers to hedge foreign exchange risks, however.

The Travel Trade Service (TTS) association is composed of roughly 30 independent and autonomous travel agencies and tour operators. Member companies serve the markets for both leisure travel and business tourism and are known for their vast expertise and many years of industry experience. According to Beat Walser, President of the TTS Group, that is essential to offering high-quality services. "The members of TTS are independent companies primarily run by the owners themselves. That guarantees continuity and, with it, dependability as well as high quality for travel agencies and our end clients." Beat Walser is also an experienced entrepreneur and has worked in the travel industry for many years. In 2009, he sold his four travel agencies in the Unterland region of the canton of Zurich to the Knecht travel group and took over the management of a company specialized in Eastern Europe. "I quickly realized that I am an entrepreneur, however. So, I seized the opportunity to acquire Smeraldo Tours in 2012."

Smeraldo Tours AG is a member of TTS and does business as a successful tour operator and Italy specialist that sells to travel agencies as well as direct customers. As an organizer of tours to Sardinia and other excursions to Italy as well as the Canary Islands, Smeraldo Tours experienced the introduction of the euro in Italy in 2001 and had to react quickly. Prior to that, the company made its purchases in lira. Today it buys mainly in euros, depending on the destination of the guided group tours that Smeraldo offers worldwide. Like Smeraldo Tours, many other Swiss travel companies sell in Swiss francs while they conduct purchases from local partners in the currencies of the respective travel destinations. That is why exchange rates play an important role in the travel industry – not only for end clients but also for the service providers. Beat Walser, who has many years of experience in this business, confirms: "You have to pay extremely close attention to them in the travel industry." He adds that it is not always easy for companies for which prices and margins depend on exchange rates. Travel providers that focus on summer tourism need to prepare their travel offerings and prices for the next year in the period between September and mid-October. During that phase, the organizer has to determine the rate at which it will convert, thus setting its prices for the next 12 months. "For example, you need to decide whether the margin should be a little higher or whether the conversion rate should be calculated a little more conservatively," says Walser. He also states that it is important to keep an eye on the market and the competitors, even those in neighboring countries. "I cannot offer my products at a higher price than my competition."

Nevertheless, there is always a certain residual risk created by possible exchange rate fluctuations. To Beat Walser, one thing is clear: "Somewhere between 50 and 70% of that foreign exchange risk needs to be covered." At Smeraldo Tours, he hedged roughly half of the exchange rate exposure using forward transactions. He leaves the remaining exposure of Smeraldo Tours open for potential optimization. He claims he has never suffered any foreign exchange losses thus far using this approach. On the contrary, Smeraldo Tours has almost always seen slight foreign currency gains. It takes a little bit of luck as well, admits Beat Walser. "In 2015, the year in which the Swiss National Bank abandoned its minimum exchange rate for the euro, we barely managed to cover our costs. I was fortunate to have made the right decisions. I learned to rely on the services of experts. In my case, that was the expertise of my advisor at Credit Suisse. A partner giving good advice is crucial for me."

Competition in the travel industry is fierce. Not only German providers but also generalists and online booking websites make life difficult for Swiss travel agents and tour operators. Beat Walser is not happy about the trend: "Mass tourism has grown out of these institutions. That has changed the world of travel for the worse." People in the tourism industry should want to do more than simply make money. They bear a huge responsibility – particularly toward the environment, says the entrepreneur. "Sustainability is a difficult issue in the travel industry. On the one hand, we live from tourism. On the other, we need to control it."

Therefore, Beat Walser advises Swiss travel agents and tour operators to view the internet not as an enemy but as a friend. “We need to offer our clients some added value that they cannot get from low-cost providers or online booking sites. We should also raise awareness about the issue of sustainability among travelers and our partners at the destinations. The burden rests on the industry; we have to get more innovative.”

Travel Trade Service TTS Ltd. was established in 1980 as an affiliation of independent travel agencies and tour operators. The association offers seminars with sales coaches and marketing projects, plus solutions for IT and digitalization. That helps them to grow together. Thanks to the just under 60 points of sale, even relatively small companies across Switzerland are covered. Beat Walser has been chairman of the Board of Directors for 15 years. He has been a passionate entrepreneur since 1986 and was the owner of various travel agencies and tour organizers.

“We have to keep our cash flow volume constant.

The people at Scott Sports enjoy taking risks when it comes to outdoor activities but not when dealing with exchange rate fluctuations. CFO Alain Hasler sees two main currency risks for Scott Sports.

Scott Sports is a multi-sport and multi-brand company specializing in the development and marketing of sport products. The company was founded in the US in the 1950s. Since the late 70s, Scott has had offices in Givisiez, Switzerland, where the company’s headquarters is located today. “Back then, there were roughly thirty employees working in a small garage focused on the European market,” says Alain Hasler, CFO of Scott Sports. “Today, Scott Sports is a globally successful company with American roots, European research and development and marketing, international production, and Swiss organization.” The success story of Scott Sports is based on the company’s mindset: innovation, design, and technology. “Those factors are critical to our company and part of our DNA,” explains Hasler. The company does not go back on its principles. As the CFO puts it, “No shortcuts. We try to develop innovative and high-performance products without having to compromise.”

Scott Sports earns roughly 8% of its revenue in Switzerland. The primary market for the sporting goods manufacturer is Europe, which accounts for 60% of its revenue. Above all, the countries neighboring Switzerland are strategically important to the company, but Scott has operations around the world. “We sell our products in more than 100 countries,” confirms the Chief Financial Officer. In doing so, Scott Sports does business in numerous currencies. “They range from Swiss francs to euros and US dollars to local currencies like the Swedish krona or Danish krone.” Scott settles its sales most frequently in euros. At the same time, the company makes purchases not only in euros but also in US dollars and Japanese yen. This regularly presents the company with challenges. For example, multiple exchange rates need to be taken into account when setting prices. “The market determines the prices,” explains Alain Hasler. “We therefore have to optimize our product costs and hedge the associated foreign exchange risks so we can protect our margin.”

First, according to Hasler, foreign exchange risks affect the company’s margins because it cannot readjust its prices every time the currency fluctuates. Second, their cash flow also takes a hit: “We have to keep our cash flow volume constant so we have enough purchasing power to buy even when prices are relatively high.” Hasler says that revaluing its balance sheet is another risk because the company consolidates the figures for the group in Swiss francs. “Currency fluctuations in Swiss francs can significantly influence our consolidated figures.” People at Scott Sports certainly enjoy taking risks, says Hasler, but not when it comes to currency hedging. “When skiing, you know the material and the conditions, but you never know if and when an avalanche is going to hit. So, you wear an avalanche backpack to be on the safe side. Our hedging tools are our avalanche bags.”

Scott generally sets exchange rates for costing purposes 10 to 12 months before the market launch of a new collection. Using this strategy, the company tries to ensure that it does not deviate too far from its budget because of currency fluctuations while being able to produce within the range of prices it has set. Scott Sports uses forwards most often, says the CFO. Hedging with forward transactions goes well with Scott’s corporate structure, both in terms of flexibility and with respect to internal procedures and available resources. He adds that this strategy has been proven over the years. Nevertheless, there are cases, production delays for instance, in which the company has to adjust its cash flow and fine-tune its currency needs with foreign exchange swaps. If exchange rates are extremely volatile, the company needs to examine its goals and analyze the impact on product margins. In some cases, the company also realizes that it should question whether production of certain products in its range is necessary.

However, Alain Hasler and Scott Sports have a positive outlook about the future: “Production and distribution of e-bikes should increase further, and we are expecting additional growth in the development of mobility and outdoor activity products.” Nonetheless, Scott still needs to stay on the ball. “The sporting goods retail sector is changing as a result of digitalization, especially with omnichannels such as e-commerce, and we want to be a player in that field as well.”

Scott Sports was founded in the US in 1958, where it began by developing the first aluminum ski poles. In the 90s, the holding company behind Scott moved to Switzerland. A South Korean company called Youngone acquired a stake in Scott Sports in 2015. Youngone, together with Beat Zaugg, has been the owner of Scott Sports ever since. Today, Scott operates in the biking, skiing, running, and motor sports markets. In addition to its own label, the company offers additional brands such as Syncros, Bergamont, and Dolomite. Just recently, Scott took up residence in a new building, its current headquarters. The company employs more than 330 people in Givisiez. One of them is Alain Hasler, CFO of Scott Sports, who has been working for the company for over 16 years: “Nothing beats riding to work on your bicycle in the fresh air to get your workday off to a good start.”

Flexible hedging strategy. The currency sets the tone.

Bartholet Maschinenbau AG achieves successes high in the sky. Roland Bartholet knows exactly what role currency risks play at his company.

Bartholet Maschinenbau AG has been in the market for cableway and amusement park systems, machine engineering, and metal processing for 57 years. Today, the family firm is a global leader in these industries. However, the company started very small. In 1962, Anton Bartholet opened a one-man repair workshop. Now the company has more than 300 employees across the globe. The success of the company is attributable to these employees, says Roland Bartholet, who, as Chairman of the Board of Directors, leads the company in its second generation. "The most important factor for our success is that we have very skilled experts on site and have been able to hire motivated employees who support change." This includes the continual development of products, adds Bartholet.

Along with the company's growth, its business has followed suit; even extending beyond the Swiss border. This has allowed Bartholet Maschinenbau AG to carry out numerous projects abroad, including in France, Norway, Russia, China, and South Korea. In the long list of countries that the Swiss company has done business in, one in particular stands out above the rest: The company was able to establish good business partners in South Korea and has already taken part in several exciting collaborative projects. "South Korea is one of the most advanced countries in Asia, roughly on a par with Switzerland," says Roland Bartholet. He adds: "Moreover, the price level in South Korea is similar to that in Switzerland. That makes it all the more attractive for us to export to South Korea." Even if Bartholet would prefer to be able to carry out all the company's transactions in Swiss francs or euros, the company repeatedly encounters business partners who insist on making purchases in their local currency. "We often operate in local currencies and must therefore know how to handle them." Accordingly, the company is trying to hedge potential currency risks in order to have to assume as little risk as possible.

The date on which the payment arrives is crucial. "That is easy to estimate with a project that takes three months. But if a project is going to take two or three years, the risk is relatively high," explains Bartholet. The risk is so great that the company even has to turn down business sometimes. If possible, Bartholet Maschinenbau AG covers its international business with the cash flow in the respective country. One example of this is cross trade in China. Here, the company sells its services in yuan renminbi while buying products in the same currency at the same time, explains Roland Bartholet. But that's not always possible: "Russia, for example, is a flourishing country, but they are still unprepared to pay in euros. If we want to hedge the risk in Russian rubles, it would be infinitely expensive."

The company prefers a very specific strategy: "If we hedge via the bank, we only do it using forward transactions," says Bartholet. Especially for transactions in euros, the company frequently hedges a significant amount and, together with the bank, ensures that it is able to maintain its foreign currency liquidity. Roland Bartholet very much values his cooperation with Credit Suisse: "Our CFO is in contact with Credit Suisse almost weekly. If we have questions, we receive a prompt and knowledgeable response." He is especially pleased about the simplicity of the exchange and will gladly continue to have his company rely on the expertise of the Bank for Entrepreneurs.

This is important for the future as well. Bartholet still has plans for the family firm. "We're currently very focused on urban transport and hope that our cableway systems will be recognized as competitive products in this field as well," explains the entrepreneur. Cableways would be a particularly suitable means of transport in cities, because you can take full advantage of the airspace and free up the streets. "It is now up to the politicians to think about cableways as an urban means of transport in addition to subways or expensive street car systems."

Bartholet Maschinenbau AG was founded in Flums, Switzerland, in 1962, arising from a small mechanical workshop that Anton Bartholet opened at the same location. The family firm shines as a prime example of entrepreneurial success. The company grew rapidly from a one-man operation to an innovative company that now employs more than 300 people. Today, Bartholet Maschinenbau AG is an international leader in the field of cableway and amusement park systems, machine engineering, and metal and sheet metal processing. Roland Bartholet, Chairman of the Board of Directors, has led the company in its second generation since 1997. He knows that it's very important to appreciate his qualified and motivated employees – just as he treasures the location of Flums. Because that is where you can find the right specialists and benefit from the good reputation that comes with "Swiss Made."

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