

Currency derivatives

forex

metals

indices

fixed income



# Forex & Treasury Risk Management

## *20<sup>th</sup> December 2014*

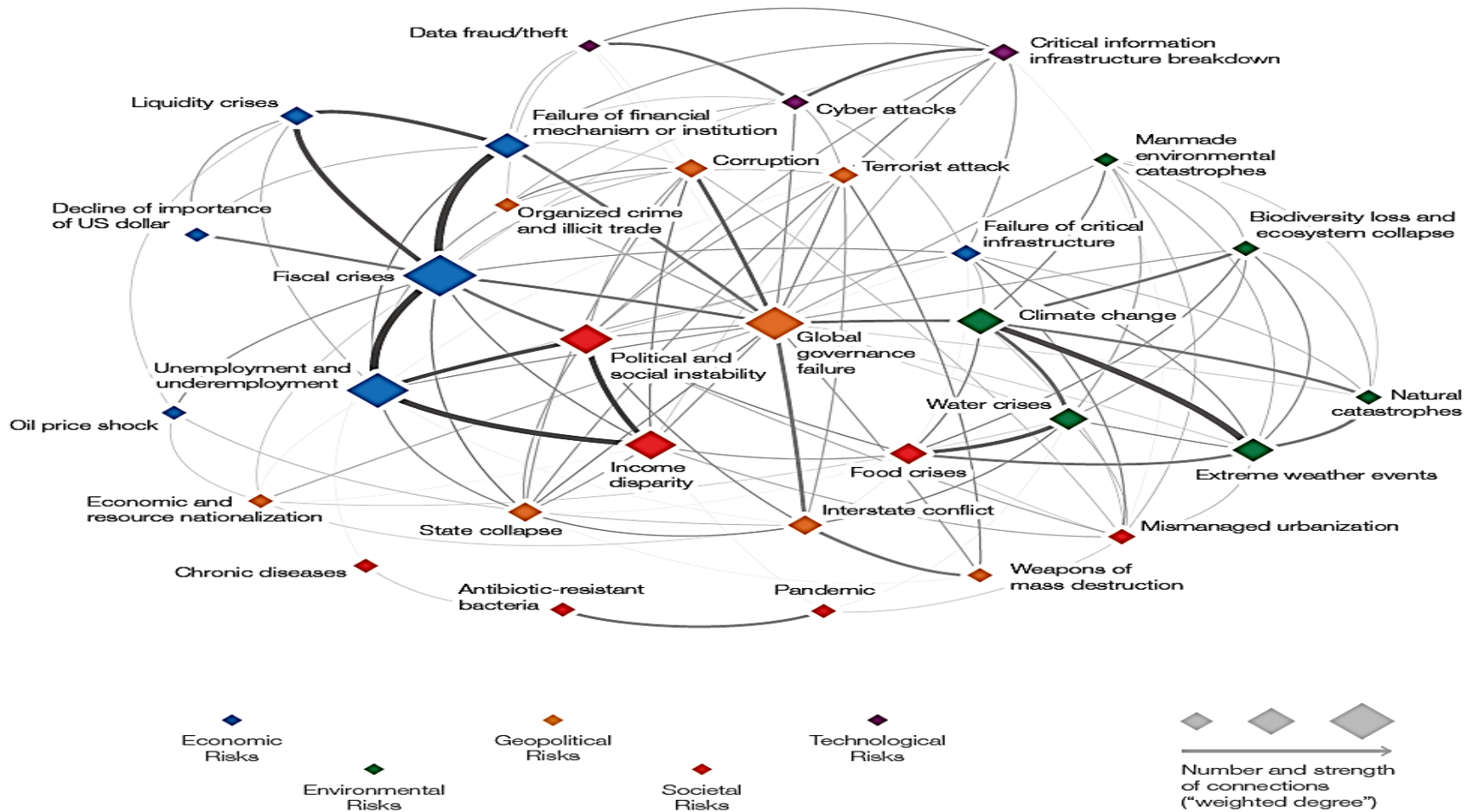
### *Mumbai*

# Agenda



- Forex & Interest Rate Risk
- Concepts of Risk Management
- Systems for Risk Management
- Q & A

# Global Risk Matrix



# Why Risk Management



- Corporate entities are in the manufacturing business or in the services sector and have International transactions, where they have the need to pay or receive Foreign Exchange.
- This is the basis of the risk, that needs to be mitigated.
- The profit from the transaction comes from the underlying business and not from the “exposure”.
- Risk management is the process of trying to secure the “business profit”.

# Understanding Risk



Forex and Interest rate fluctuation risk has serious implications for corporate balance sheets, especially during volatile times.

- The lack of importance given to “Risk Management” in this area has seriously impacted many corporate balance sheets.
- The lack of understanding of the procedures to follow in “Risk Management” has also had negative implications for exporters and importers alike.
- Lack of Bank limits, access to information, logic and systems to aid in the process are all debilitating to the health of a corporate.
- The Risk Management Policy is a must for all companies, as directed by the RBI.

# Exchange Rate Risk



- The Foreign Exchange markets are volatile - constantly changing based on Market News, Economic Data, Fundamental Data.
- Global Market players participate round the clock.
- If a corporate does not track it's exposure, along with the market movements, it may face severe losses in a volatile market.
- Available tools hedging: Forwards, Futures, Swaps and Options.

# Interest Rate Risk



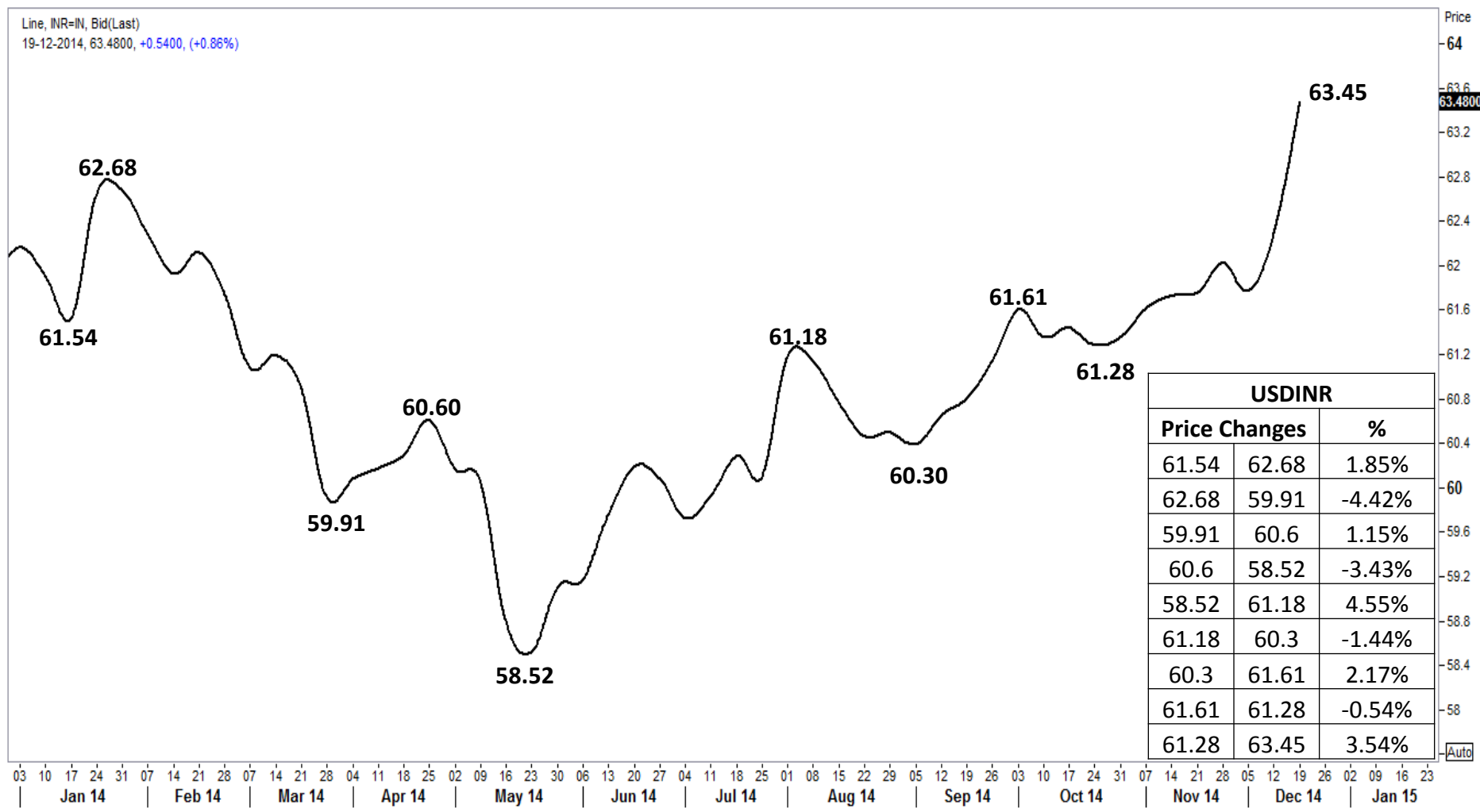
- Debt is a key component of a firm's capital structure
- Interest rates can fluctuate dramatically in short periods of time
- The interest rates affect the FX rates also and the forward premia improving or diminishing the cost/price of hedge.
- Therefore, a keen eye needs to be kept on the interest rates.





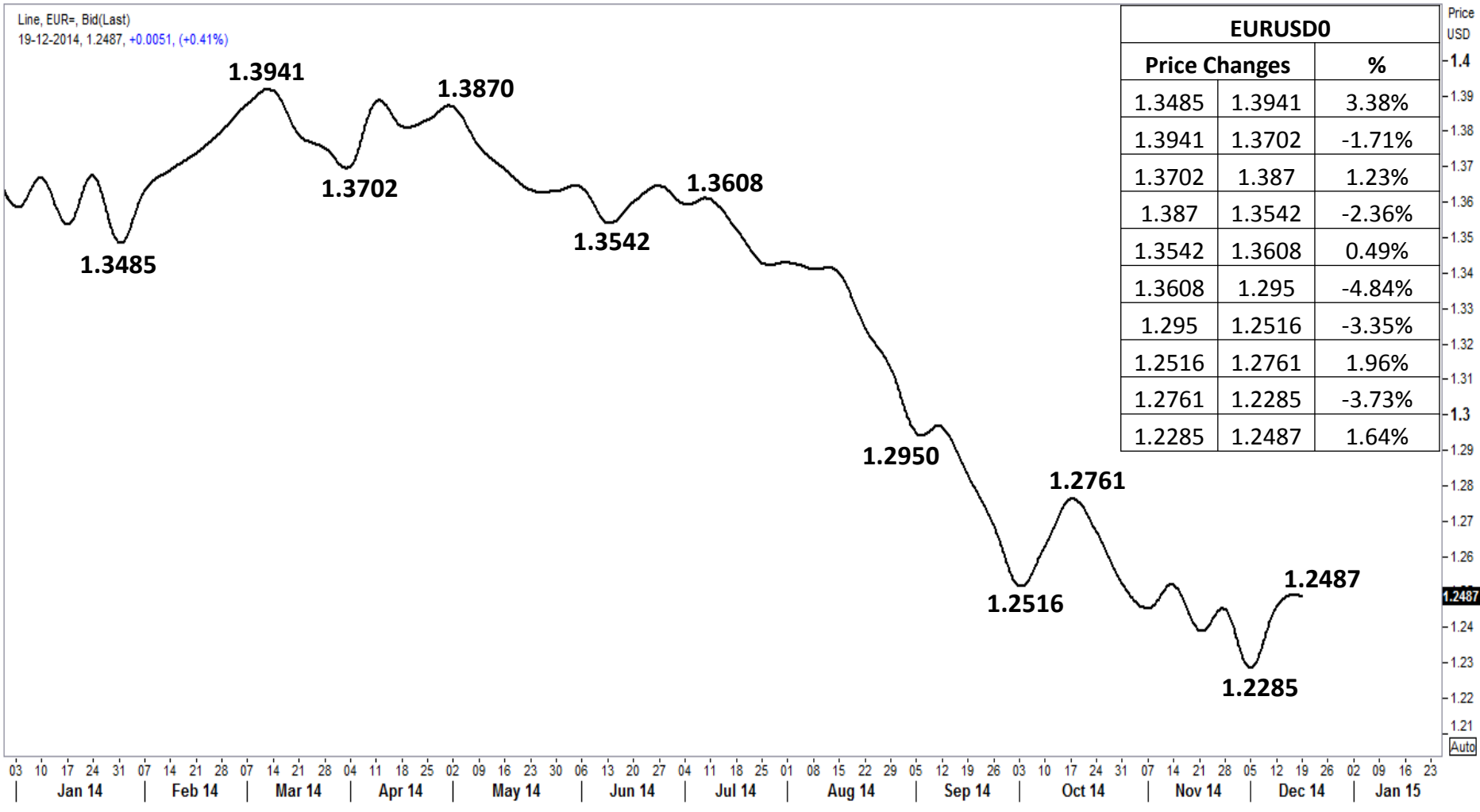


# Look at Volatility: USDINR : Last 1 Year



USDINR		
Price	Price	%
61.54	62.68	1.85%
62.68	59.91	-4.42%
59.91	60.6	1.15%
60.6	58.52	-3.43%
58.52	61.18	4.55%
61.18	60.3	-1.44%
60.3	61.61	2.17%
61.61	61.28	-0.54%
61.28	63.45	3.54%

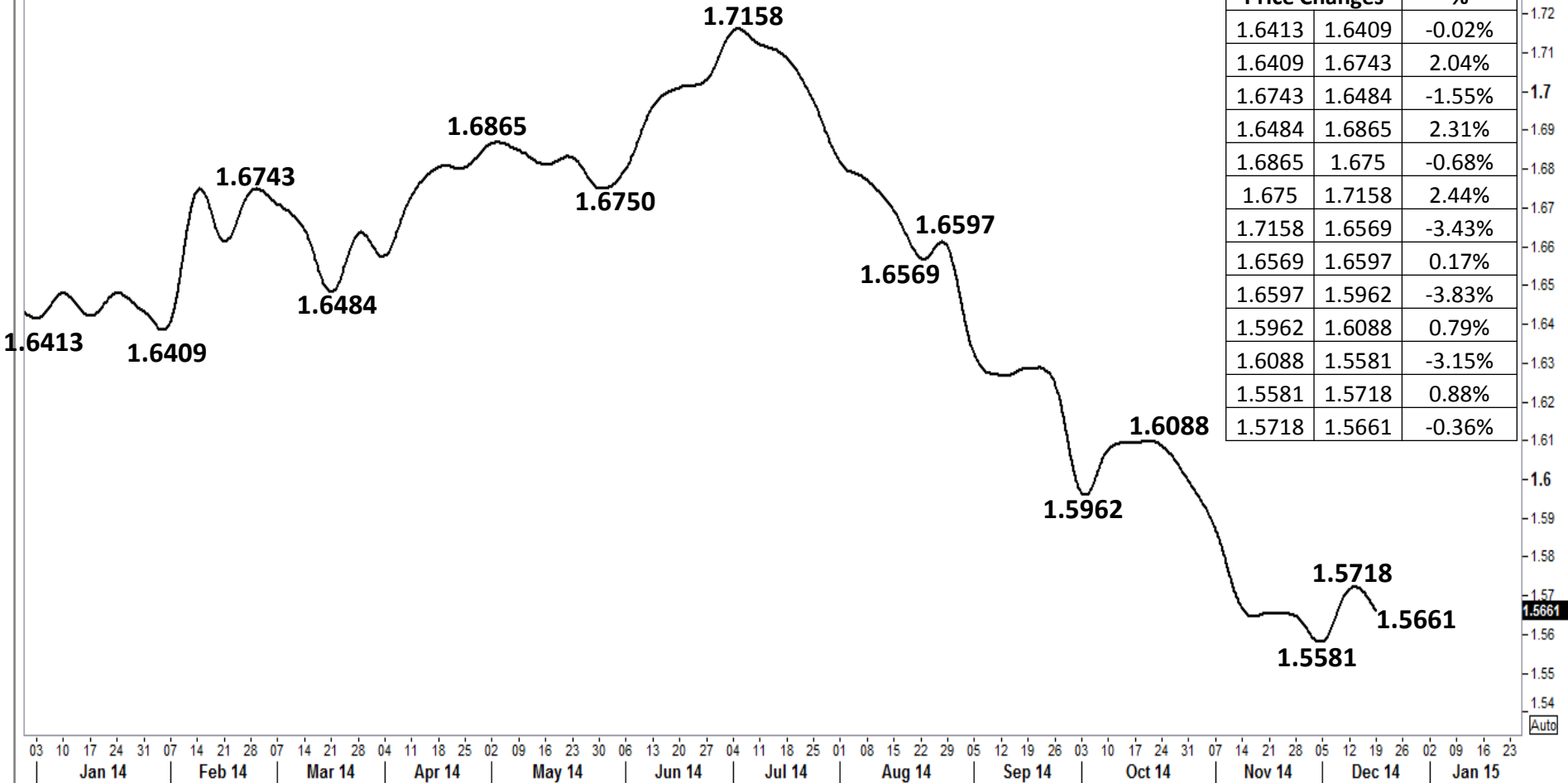
# EURUSD: Last 1 Year



# GBPUSD : Last 1 Year



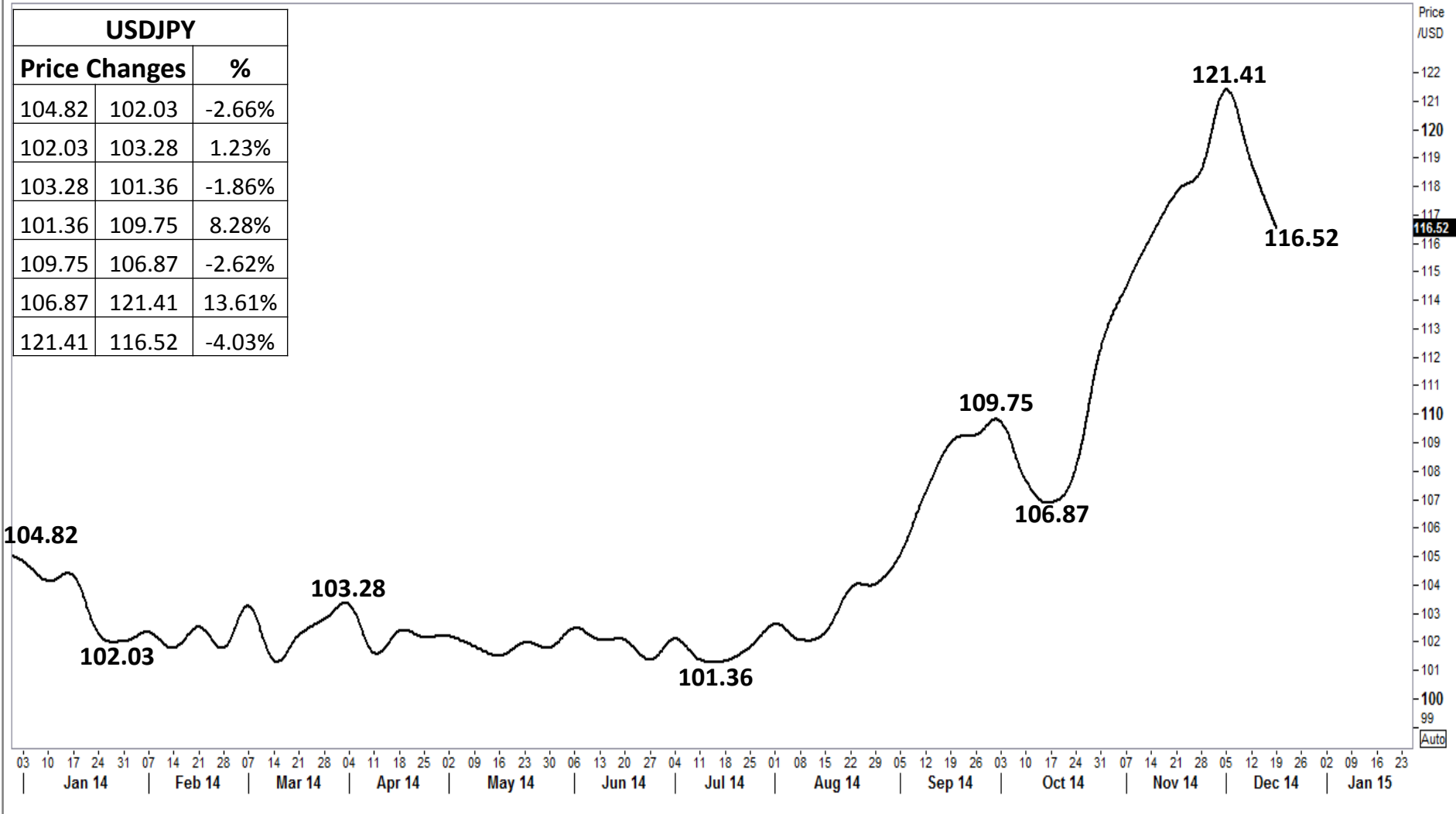
Line, GBP=, Bid(Last)  
19-12-2014, 1.5661, +0.0024, (+0.15%)



# USDJPY: Last 1 Year



USDJPY		
Price Changes		%
104.82	102.03	-2.66%
102.03	103.28	1.23%
103.28	101.36	-1.86%
101.36	109.75	8.28%
109.75	106.87	-2.62%
106.87	121.41	13.61%
121.41	116.52	-4.03%

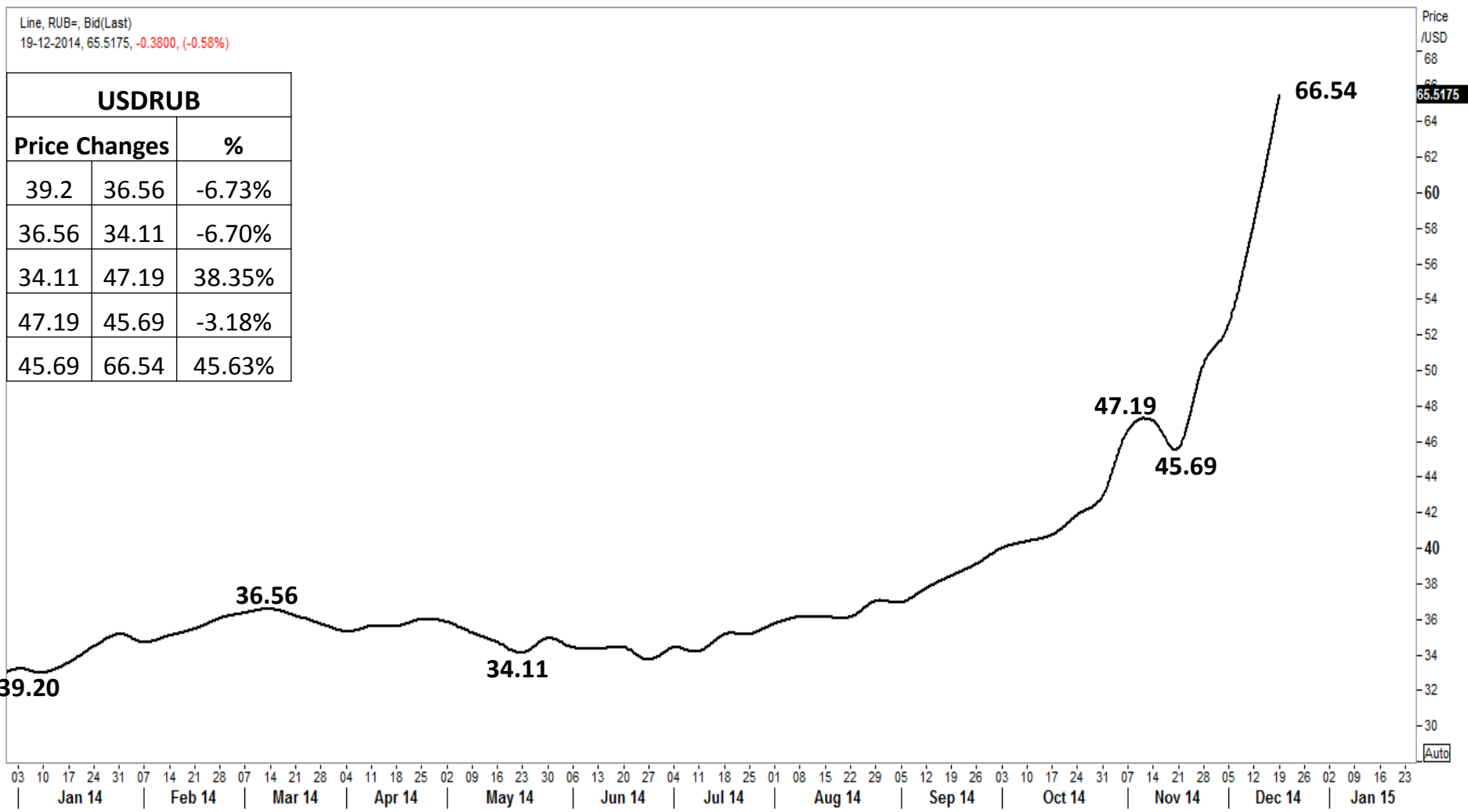


# USDRUB: Last 1 Year



Line, RUB=, Bid(Last)  
 19-12-2014, 65.5175, -0.3800, (-0.58%)

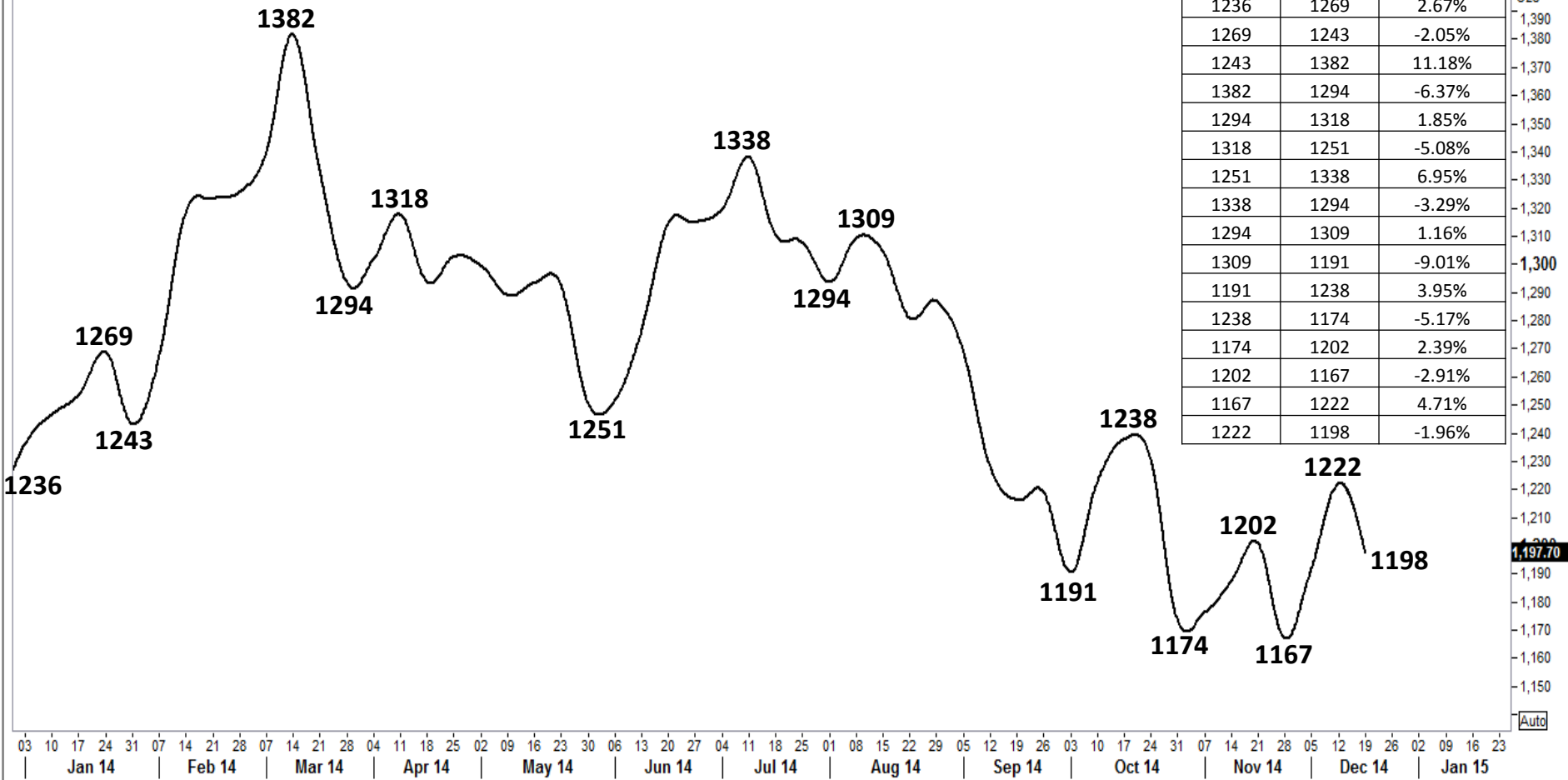
USDRUB		
Price Changes		%
39.2	36.56	-6.73%
36.56	34.11	-6.70%
34.11	47.19	38.35%
47.19	45.69	-3.18%
45.69	66.54	45.63%



# GOLD: Last 1 Year



Line, XAU=, Bid(Last)  
19-12-2014, 1,197.70, N/A, N/A



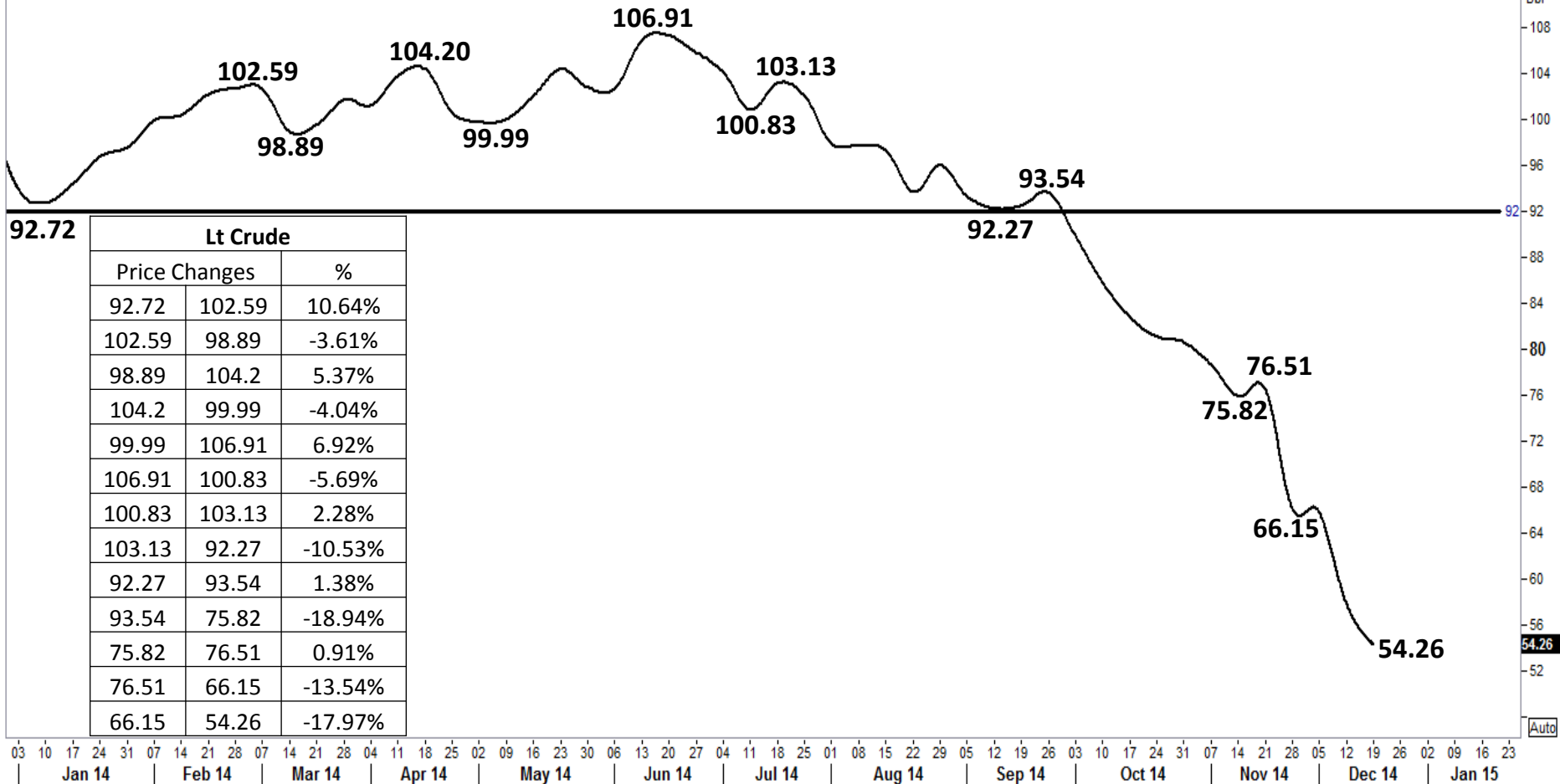
GOLD		
Price Changes		%
1236	1269	2.67%
1269	1243	-2.05%
1243	1382	11.18%
1382	1294	-6.37%
1294	1318	1.85%
1318	1251	-5.08%
1251	1338	6.95%
1338	1294	-3.29%
1294	1309	1.16%
1309	1191	-9.01%
1191	1238	3.95%
1238	1174	-5.17%
1174	1202	2.39%
1202	1167	-2.91%
1167	1222	4.71%
1222	1198	-1.96%

Price USD  
Ozs  
1,390  
1,380  
1,370  
1,360  
1,350  
1,340  
1,330  
1,320  
1,310  
1,300  
1,290  
1,280  
1,270  
1,260  
1,250  
1,240  
1,230  
1,220  
1,210  
1,200  
1,190  
1,180  
1,170  
1,160  
1,150  
Auto

# Crude Oil: Last 1 Year



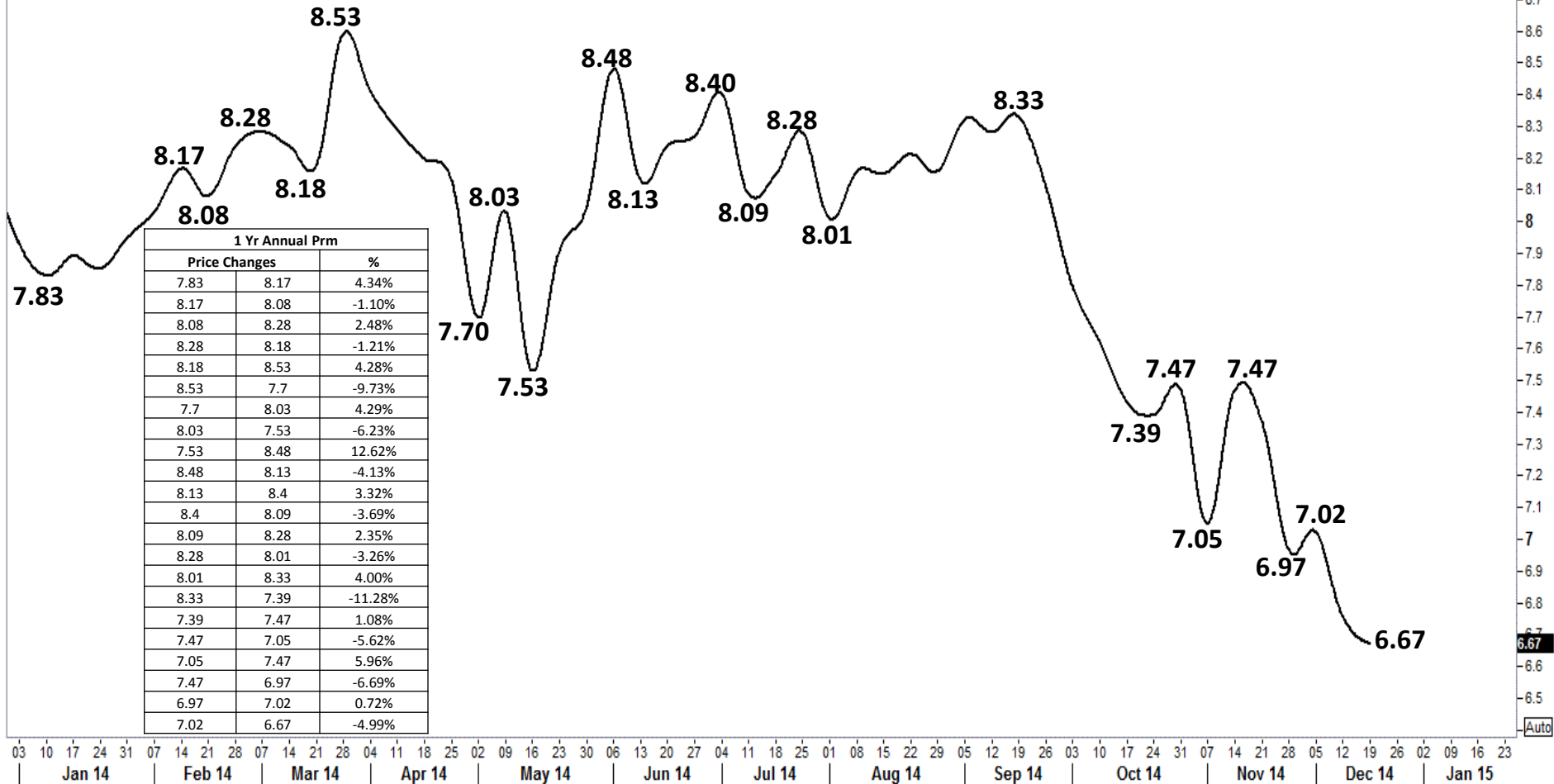
Line, CLc1, Trade Price(Last)  
 19-12-2014, 54.26, -1.65, (-2.95%)



# 1Yr Forward Prm %: Last 1 Year



Line, INRANPRM1Y=R, Bid(Last)  
19-12-2014, 6.67, N/A, N/A





# Concept of Risk Management



- **Benchmark:**

A corporate having exposure in the FX Market needs to set a benchmark rate for all its import & export transaction or Interest Rate Risk

- **Thresh hold Limit :**

A certain percentage level should be kept as a stop loss for adverse movements against the benchmark.

- **Monitoring & Review:**

A regular monitoring (weekly and monthly basis) of all the new & existing exposures is required.

- **Views & Risk Management Policy:**

Daily, Monthly & Quarterly outlook on Global Markets could help derive accurate hedging strategies and working within the risk management policy works as a safeguard against adverse market conditions.

# Systems for Risk Management



## **Methodology: -**

- Using benchmark system for all exposures
- Using Core hedge policy
- Pre defined Stop loss & Take Profits
- Clearly defined MIS system which captures the corporate's risk at all times
- Dedicated person or team for constant monitoring
- Incorporating systems & analysis to ensure timely action for achievement of benchmark levels.

*e.g. Synchronicity Model.*

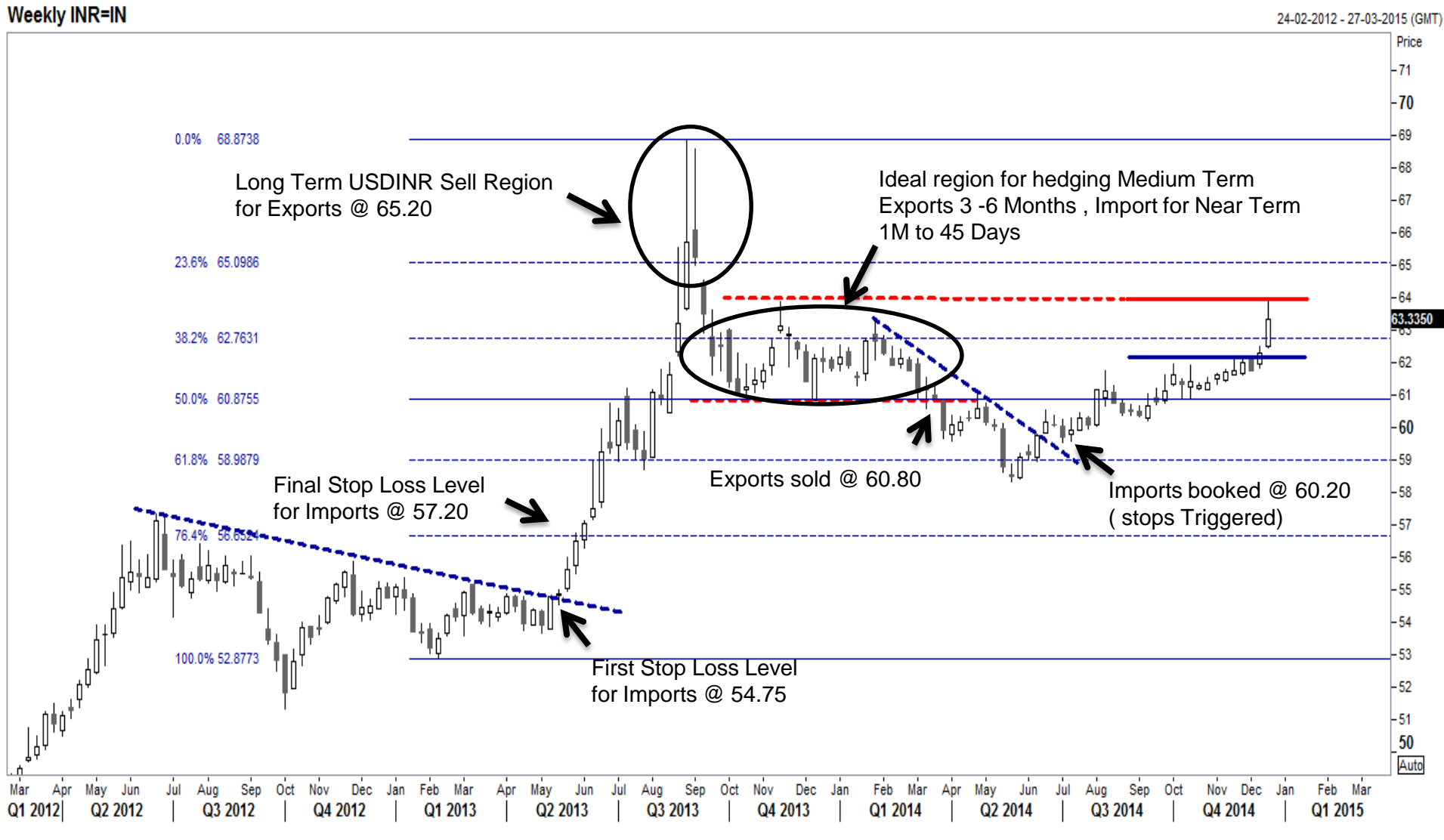
# Forexserve - Synchronicity Model



- All asset classes are inter-linked
- Market behavior is thematic in nature.
- The classic cycles of fear & greed - inter-space each other.
- LEADS and LAGS
- Relationship between different assets classes

Therefore, using the analytical process, we can hope to have a good understanding well in time of an impending move in the markets and therefore be prepared for it. Having a strategy and being prepared gives the necessary safeguard that a corporate needs in the FX and Treasury markets.

# Understanding Markets for Hedging Strategies





thank you

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