

FX and Interest Rate Hedging for Corporate Clients

2 Days

COURSE OVERVIEW

The issue of whether or not to hedge risk continues to baffle many corporations. At the heart of the confusion are misconceptions about risk, concerns about the cost of hedging and fears about reporting a loss on derivatives transactions. A lack of familiarity with hedging tools and strategies compounds the confusion.

An effective hedging program does not attempt to eliminate all risk. Rather, it attempts to transform unacceptable risks into an acceptable form. The key challenge for the corporate risk manager is to determine the risks the company is willing to bear and the ones it wishes to transform by hedging.

The demands being made on corporate treasuries are increasing all the time. The globalization of markets and intensified competitive pressure is resulting in an ever larger and more complex field of activity. Exchange rates have experienced erratic fluctuations in recent times; a trend which is unlikely to change in the near future. This is the environment in which our workshop is being run; offering treasury dealers and their corporate clients the chance to model corporate hedging according to its risk profile in a practical setting.

LEVEL

Intermediate

WHAT WILL I GET OUT OF IT?

The main focus of this workshop is on managing foreign exchange and interest rate risks using various hedging instruments available. The potential application of standard hedging methods for foreign exchange and interest rate is described in detail. The workshop also has a group work element in which various risk management ideas and business philosophies are discussed and presented. The workshop is heavily practice-based and interactive. The plenary discussions give participants the opportunity to benefit from each other's experience.

- Evaluate the costs of hedging in light of the costs of not hedging
- Determine the most applicable hedging strategy for your clients' needs
- Evaluate the different hedging tools available
- Examine currency hedging strategies
- Examine interest rate hedging strategies
- Evaluate the inherent risks of using derivatives to hedge your risk exposure

WHO'S IT FOR?

Designed for staff from both financial and non-financial businesses whose roles include managing hedging functions. This includes CFOs, Treasurers, Finance Directors, Risk Managers, Corporate Bankers and Auditors.

COURSE CONTENTS

Part I: Standard FX Hedging Tools

FX Forwards

- Calculating the outright rates
- Premium/Discount
- Factors influencing the outright rates

FX Futures

- Key terminology
- Short hedges
- Long hedges
- 8 Don'ts in hedging with Futures

FX Options

- Key terminology
- Put-Call Parity
- Historical and Implied Volatility
- Options Strategies

Interest Rate Futures

- Key terminology
- Market conventions

Forward Rate Agreements

- Spot yield curve
- Forward curve

Interest Rate Swaps

- Market convention
- Pricing

Part II: Risks from Perspectives of Corporate Clients

What Caused the Indecisiveness to Hedge from Corporate Clients

What Big Corporate Clients are Doing for FX Hedging

What is Risk from Corporate Client's Point of View

What is Risk Management

Hedging or Speculating

“Natural” Hedges from Corporate Client’s Point of View

Risk Management Framework

- Exposure assessment
- Strategic decisions
- Tactical decisions
- Support infrastructure

Part III: Hedging Strategies

Overview of Exotic Options

Hedging FX Risks with FX Option

- Zero cost hedge
- Seagull
- Range forward
- Participating forward
- Quanto FX digital option with fixed strike
- Accumulator
- FX daily range accrual
- FX wedding cake

Hedging with FRA

- Discounting, time value of money and other matters

Hedging with Interest Rate Futures

- Convexity bias in futures

Hedging with Swaps

- Relationship between bond and swap markets
- Non-generic swaps

Hedging with Swaptions

- Extendibles
- Retractable

Interest Rate Derivatives

- Caps, floors and collars
- Periodic knock-out caps
- Constant maturity swaps
- Inverse floater deposit

Cases:

1. The delegates will form groups to suggest hedging solutions for a corporate customer. The groups will need to structure hedging solutions and defend why their solutions might work under various scenarios.
2. Comparing 5 alternative hedges In terms of:
 - Expiration dynamics
 - Hopes and fears
 - Reasons to do it