

Introduction To The Foreign Exchange And Money Markets

Objective

During this programme participants will:

- Understand why corporate Treasuries may be exposed to currency risk
- See how technical analysis can help forecast future price movements
- Identify where to implement currency hedging solutions
- Study market conventions for quoting spot and forward FX rates
- Look at forward FX rates and their applicability to long term commercial contracts
- Explore the use of options as a hedging tool
- Cover suitability and appropriateness

Training Methodology

We will focus on the practical realities of the market, rather than taking an excessively mathematical or academic approach. This is about opportunity spotting and the effective delivery of an appropriate and suitable solution.

The emphasis of the course is on the day-to-day applications of spot and forward foreign exchange contracts, as well as options, to create solutions for corporate Treasurers.

No calculator is required; everything we cover can be done on a mobile phone.

Highly Participative

The programme is highly interactive and will encourage participation through exercises and case studies, which the delegates will solve individually or in small work-groups.

These activities are designed to allow attendees to practice and to consolidate the concepts that will be discussed during the lectured sessions of the program.

Who Should Attend

- Treasury Staff
- Relationship Bankers
- Credit Officers
- Middle office
- Corporate Treasury Staff

Each day of the two-day course starts at 9 a.m. and finishes at 5 p.m.

Introduction To The Foreign Exchange And Money Markets

Day One

Objectives

By the end of the first day the participants will have

1. Identified where corporates are exposed to currency risk
2. Quantified the consequence of not hedging
3. Seen how spot FX transactions are quoted
4. Understood how forward foreign exchange locks in margins
5. Covered how markets can be arbitrated to generate cheaper funding or higher yields

Why Do Treasurers Manage Currency Risk?

- Direct versus indirect FX exposure
- Translation versus transaction risk
- Exploring foreign exchange risk in trade finance
- Identifying FX opportunities in the operating cycle

Exercise: Identify risk in the operating cycle

Creating an FX checklist

Quantifying FX Risk

- How do clients measure FX exposure?
- What is the consequence of not managing FX risk?
- Where are the markets going?
 - Technical analysis basics
- FX risk management policy

Foreign Exchange Fundamentals

- Spot pricing and quoting conventions
- Settlement risk
- Deriving Cross Rates

Exercise: FX Quotes

Forward Foreign Exchange

- Deriving the forward rate
- The role of interest rate differentials
- Calculating forward points using the cash flows
- Non-deliverable forwards (NDFs)

Exercise: Calculating forward foreign exchange rates

Covered Interest Rate Arbitrage

- Cash flows in an FX swap
- Creating arbitrage opportunities with FX swaps

Exercise: Covered interest arbitrage

Medium Term Foreign Exchange (MTFX)

- Calculating MTFX rates
- Applicability to long term commercial contracts
- Opportunities in the current market

Exercise: Forward USDJPY

Case Studies

- Mini case studies to incorporate FX products and hedging solutions

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Day 2

Objectives

By the end of the second day the participants will have

1. *Seen how to use options to manage foreign exchange risk*
2. *Explored the applications and workings of fundamental option products*
3. *Looked at a variety of risk situations and identified suitable solutions to the underlying problems*
4. *Seen how to correctly document derivative transactions and discussed ways to mitigate mutual credit exposure*
5. *Completed a case study which covers the product areas of the course*

Options and Structures

- Features of FX options
- Fundamental structures
- Payoff diagrams
- Strategies to reduce premium outlay

Exercise: Dual currency deposits

Money Market Instruments

- Certificates of Deposit
 - The implication of breaking a deposit
- Treasury Bills
- Bankers Acceptances
- US and Euro-Commercial Paper
- Repos: Classic and Buy & Sell methods
 - “Special” versus General Collateral
 - Applications in funding a bond portfolio
 - Applications in going short

Exercise: Choosing investment products given investment criteria, day conventions and nominal interest rates

FX Option Simulation

This hands-on intuitive excel-based simulation gives participants direct exposure to an options pricing model.

We undertake several exercises and see how different variables can be changed to accommodate a client view.

Course Review And Close