



Managing currency risk

PRACTICAL GUIDE



Desjardins
Business

TABLE OF CONTENTS

4 Introduction

5 Currency risk

- 5 1. Definitions
- 5 2. Emergence
- 6 3. Establishing a hedging strategy is essential
- 7 4. Why some businesses are still reluctant to hedge

8 Products

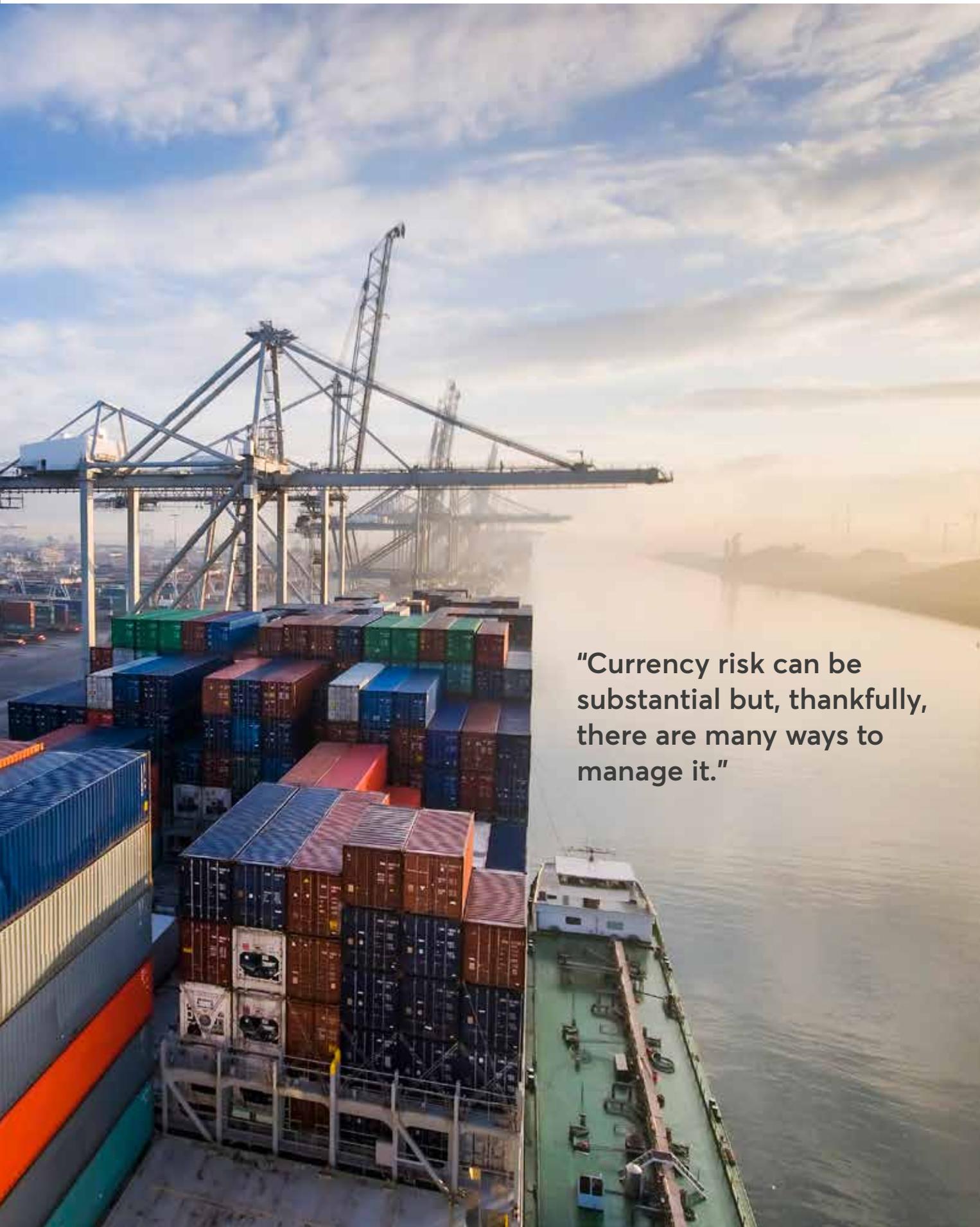
- 9 1. Forwards
- 10 2. Currency swaps
- 11 3. Vanilla option
- 13 4. Option strategies

16 Steps to currency risk management

- 16 1. Defining your needs
- 17 2. Choosing a strategy
 - 17 a. No coverage
 - 17 b. Systematic coverage
 - 18 c. Partial coverage
 - 18 d. Natural coverage
- 19 3. Selecting instruments
- 19 4. Implementation and review

20 Conclusion

21 Notice of non-responsibility



"Currency risk can be substantial but, thankfully, there are many ways to manage it."

Introduction

The onset of international trade has allowed Canadian businesses to develop many business ties with foreign partners. Although good economically, this has prompted the emergence of a risk that many local businesses must now deal with on a daily basis: **currency risk.**

Purpose of the document

This document is designed to provide you guidance in an area which can seem very complex. The goal is to demystify the concept of currency risk and to familiarize you with the various tools and strategies that exist to manage your risk.

Currency risk

1. Definitions

Currency risk arises from foreign currency payables or receivables generated as a result of contracts the company has signed (or will sign). It is the risk that the currency will fluctuate in a negative way and that the company will have to convert the foreign currency at a loss compared to what was originally budgeted. This is **currency transaction risk**.

- For an importer: the risk that the foreign currency will appreciate
- For an exporter: the risk that the foreign currency will depreciate

Companies may also face other types of currency risk: **Currency conversion (or transaction) risk** and economic currency risk. **Currency conversion** risk affects the company's balance sheet. For example, a Canadian firm with U.S. assets would be vulnerable to U.S. dollar depreciation.

Lastly, **economic currency risk** exists when a company becomes less competitive with respect to its foreign competitors subsequent to a rise of the local currency. For example, a Canadian exporter could see its foreign sales decline as a result of overly extensive appreciation of the Canadian dollar, which makes its products more expensive in the eyes of consumers.

This document deals with currency transaction risk.

2. Emergence

Currency risk can materialize well before currencies are actually converted.

There are two types of companies:

1. Companies who **publish a price list**.
2. Companies who **negotiate prices on the spot, contract by contract**.

Some companies must distribute a price list based on a rate budgeted at the start of the season (e.g. catalogue). For example, a ski apparel supplier will give its retailers a price list several months before the winter season starts. Currency risk materializes as soon as the price list is released, well before the client is invoiced.

Whereas, some companies have the opportunity to negotiate a purchase or sale price contract by contract, based on the current exchange rate. For example, for an industrial equipment manufacturer, currency risk appears as soon as the sale contract is signed, even though shipment of the final product (and the foreign client's payment) will only happen in six months. Currency risk is much easier for these businesses to manage, as they know exactly what their foreign currency inflows and outflows are.

Types of business	Appearance of currency risk	Goal
Publication of a price list	Upon publication of the price list	Maintain, optimize the budgeted rate
Individually negotiated contracts	Upon signature of the contract	Protect the contract's expected profit margin

"We sleep a lot better when we're covered."

3. Establishing a hedging strategy is essential. Why?

- **To protect against unfavourable currency fluctuations.** The main reason it is important to use a hedging strategy is that it helps offset the negative impact of exchange rate fluctuations on your foreign currency expenditures or revenues.
- **To eliminate uncertainty regarding exchange rates.** Eliminating uncertainty makes it easier for the company to plan and forecast their budget.
- **To focus on the company's core activities.** Time spent monitoring currency fluctuations is time away from your primary activities and it can also be a source of distraction.
- **To avoid the complexity of forecasting exchange rates.** The currency market is one of the most difficult financial markets to predict. A few years ago, former Fed Chair Alan Greenspan even stated that predicting exchange rates was just as random as predicting the results of a coin toss.¹

"A company should be **indifferent** to a gain or loss arising from the various instruments used to protect itself against currency risk.

"Instead, it should focus on protecting its cost or profit structure."

¹ <http://www.federalreserve.gov/boarddocs/speeches/2004/20041119/default.htm>

4. Some businesses are still reluctant to hedge. Why?

Unfortunately, some businesses are still hesitant about covering their currency risk. An initial poor experience, lack of knowledge concerning the products, and the media are often used as reasons for not hedging.

However, here is why these reasons SHOULD NEVER PREVENT a company from protecting itself from currency risk.

- **Poor first experience:** A company may decide never to hedge again as a result of a bad experience. For example, it realizes that the market rate is better than the rate in its forward contract.

The company should see managing currency risk as a type of insurance. It ensures that a certain profit margin can be achieved. Opting not to hedge would be like deciding to cancel one's car insurance after a trouble-free year, saying that the premium was a waste of money.

- **Lack of knowledge concerning the products:** The various ways to hedge against currency risk aren't well known to all companies. Thankfully, your trader is there to guide you and to help you find solutions that are tailored to your specific needs.
- **Media:** People often look for expert opinions to justify their decisions and frequently turn to articles and interviews that appear in the media. For example, a Canadian exporter may decide not to hedge his U.S. dollar inflows after reading an article whose author was predicting that the U.S. dollar would rise.

Remember, however, that many highly credible authors can have diverging opinions. People also tend to read articles that back up what they think, or at least what they are hoping for.

"Businesses get insurance to cover their goods and to protect themselves from unexpected events ... Unfortunately they sometimes forget to protect their ultimate goal: **PROFIT!**"



Products

There are products specifically designed to mitigate or even eliminate the risk posed by foreign currency fluctuations thus allowing businesses to get through highly volatile periods with ease. These products are:

1. Forwards
2. Currency swaps
3. Vanilla option
4. Option strategies



1. Forwards

A forward contract is an agreement between two parties to buy or sell an amount at a rate and date that are established ahead of time. When the contract expires, the conversion rate will be the contract rate, regardless of what the market rate is. A forward contract thus allows a company to protect itself from unfavourable currency fluctuations.

A forward can be open or closed. A **fixed forward contract** means you must use the entire amount solely on the pre-established date. An **open forward contract** allows you to take partial delivery over a period of up to one month before the contract ends. The open forward is generally used more often due to its flexibility.

FORWARD

Advantages

- Protection from unfavourable currency fluctuations
- Flexible
- Simple
- No disbursement

Drawbacks

- Not possible to capitalize on a favourable currency fluctuations
- Cannot be cancelled. The company must be sure of its needs

FORWARD RATE DETERMINANTS

Note that the forward rate has nothing to do with the financial institutions' exchange rate expectations. The forward rate is determined based on the market conversion rate (spot rate) plus or minus forward points. Forward points depend on interest rate differential between the currencies involved.

Term rate = spot rate +/- forward points

The forward is an obligation for both parties. Regardless of what the rate is at the end of the contract, both parties must honor their commitments.

CAN I CANCEL A FORWARD CONTRACT?

No. A forward cannot be cancelled. A reverse transaction at the current market rate would need to be completed. Depending on rate fluctuations, this could result in a gain or a loss. **This is why it is essential to clearly determine your needs prior to entering into a contract.**

However, a forward can be extended or shortened if a payment or receivable were to be delayed or moved up. At that time, the company would have to complete a **currency swap**. (Refer to the next section.)

Example – Importer

Situation

You must send your supplier US\$100,000 in three months to pay for raw materials. You establish the price for the final product in Canadian dollars according to today's spot exchange rate.

Objective

- To hedge against USD appreciation and protect your profit margin.

Market parameters

Spot rate: 1.3300

3-month forward points: - 10 points

Forward rate: 1.3300 – 0.0010 = **1.3290**

In three months

You will pay C\$ 132,900 and receive US\$100,000, regardless of the rate on that day.

Example – Exporter

Situation

You will receive US\$100,000 from your U.S. client in three months for the sale of your products. You set the sale price based on an expected profit in Canadian dollars and today's spot exchange rate.

Objective

- To hedge against USD depreciation and protect your profit margin.

Market parameters

Spot rate: 1.3300

3-month forward points: - 25 points

Forward rate: $1.3300 - 0.0025 = 1.3275$

In three months

You will receive C\$ 132,750 and must ship US\$100,000, regardless of the rate on that day.

Why not enter into forward contracts only when the company expects unfavourable currency movements and do nothing when it expects currency movements to be favourable?

It is extremely difficult, even impossible, to predict currency movements accurately. A company should focus on its area of expertise and eliminate all other possible risks.

2. Currency swaps

A currency swap is a cash flow management tool that is very popular with businesses that have foreign currency inflows and outflows at different or unexpected dates. It involves two opposite transactions that are completed simultaneously for the same notional amount.

Currency swaps are used for:

1. Matching cash flows
2. Moving up or extending a forward
3. Financing

For example, imagine you need US\$500,000 today and expect receivables for that same amount six months from now. Instead of buying U.S. dollars at the spot rate and waiting for your receivables to come in in order to resell them, a currency swap can be used. This strategy

involves buying US\$500,000 at the spot rate and **simultaneously** reselling that amount using a six-month forward contract. The difference between the two rates will only come from the forward points (see forward contract). This strategy prevents pointless exposure to exchange rate fluctuation.

A currency swap combines a spot transaction with a reverse forward contract. (A spot purchase and a forward sale or spot sale and forward purchase).

SWAP

Advantages

- Resolves problems with the synchronization of foreign currency flows.
- Makes it possible to extend or move up a forward.
- Prevents unproductive surpluses and onerous debits.

Drawbacks

- Not possible to capitalize on favourable currency fluctuations.
- Cannot be cancelled. The company must be sure of its needs.

Example – extending a forward

Situation

You have a forward sale contract for US\$100,000 at 1.300 which expires today. Your client's payment is late and you expect to get it next month. You are therefore unable to hand over US\$100,000 as agreed.

You have two options:

1. Pay out US\$100,000 by borrowing it from your U.S. credit line and paying it back when you get your receivables
2. Enter into a currency swap

Currency swap procedure

1. Buy US\$100,000 at the spot rate: the purchase will make it possible to honour your sale contract.

2. Simultaneously take out a new one-month forward contract. Your **new sale rate will be based upon the same spot rate as your purchase, adjusted based on the term points:** the new forward makes it possible to maintain the hedge acquired when you originally took out the forward.

When setting up a swap, an amount may be credited to or debited from your Canadian account. You will receive a credit if the purchase rate is less than the rate on your sales contract. Or, your account will be debited if the purchase rate is higher than the rate in the forward contract.

Note in either case, this is not a gain or a loss since your new sales contract will be based on the market rate in effect at the time the swap is set up.

For example, let's say the rate was 1.3300 when your forward was up. You must therefore buy US\$100,000 on the spot at 1.3300 (allowing you to make the delivery). An outflow of C\$ 3,000 will result. However, you will get most of this back when your new forward sale contract expires, as it is established at today's spot rate, which is 1.3300. The rate you initially budgeted is thus protected.

3. Vanilla option

The vanilla option **gives buyers the right but not the obligation** to buy or sell a foreign currency amount at a pre-established date and rate. The **option's seller is obliged** to buy from or sell to the option's buyer if the buyer exercises his option.

The option buyer is thus guaranteed a floor or ceiling cap rate and the opportunity to capitalize on favourable currency fluctuations. In order to benefit from this right, the option buyer must pay a premium to the option seller.

A **sale option (put)** gives the holder the right to sell a foreign currency at a predetermined price. The party who sold the option is obliged to buy the currency if the option holder exercises his right.

A purchase option (call) gives the holder the right to buy the foreign currency at a predetermined price. The party who sold the option is obliged to sell the currency if the option holder exercises his right.

In a way, an option is like a type of insurance against unfavourable currency movements. A call option protects importers from potential currency appreciation. As opposed to, a put option which protects exporters from currency depreciation.

Premium determinants

As with an insurance policy, the option buyer must pay a premium to hedge against unfavourable movements. The value of the premium depends on many things such as the duration, amount to cover, and anticipated market volatility. The higher these variables are, the more expensive the premium will be.

The level of protection desired (the exercise price) also influences the value of the option. For a purchase option the lower the level of protection is, the more expensive the option will be. For a sale option, the higher the level of protection, the more expensive the option will be.

Premium determinants:

- Term of the option
- Amount of protection desired with respect to the market rate
- Expected volatility
- Amount to cover

Note that whether or not the option is exercised, the premium is a non-reimbursable business expense.

VANILLA OPTION

Advantages

- Protection from unfavourable currency fluctuations
- Potential for unlimited gain in the event of favourable currency fluctuations

Drawbacks

- The premium paid is not reimbursable, regardless of whether the option is exercised

Options can be an excellent tool in the context of a tender

Options are especially suitable in a call for tenders situation. Unlike a forward, the company does not have to hand over or buy the foreign currency when the option expires. It only does so if there is an advantage to the company; there is no obligation.

For example, an exporter can bid on a deal based on a conversion rate and protect that rate by buying a put option. If the company does not win the bid, it has no obligation to exercise the option. However, if it had used a forward, it would have to deliver the amount of the contract.

Example – Importer

Situation

You must send your supplier US\$100,000 in three months to purchase raw materials. The spot rate is 1.3300.

Objective

- Set a cap
- Be able to capitalize on U.S. dollar depreciation

Call option details

Notional amount: US\$100,000
Exercise price: 1.3500
Premium: C\$1,560

In three months... Two possible scenarios

1. **Spot rate > 1.3500:** you exercise your call option and buy US\$100,000 at 1.3500.
2. **Spot rate < 1.3500:** you do not exercise your call option and buy US\$100,000 directly from the market.

Example – Exporter

Situation

You are expecting a receivable of US\$100,000 in three months subsequent to a new sale. The spot rate is 1.3300.

Objective

- Set a floor price
- Be able to capitalize on U.S. dollar appreciation

Call option details

Notional amount: US\$100,000
Exercise price: 1.3000
Premium: C\$1,230

In three months... Two possible scenarios

1. **Spot rate < 1.3000:** you exercise your call option and sell US\$100,000 at 1.3000.
2. **Spot rate > 1.3000:** you do not exercise your call option and sell US\$100,000 directly to the market.

The options represent a right for the holder. However, they are an obligation for the party that sold them. If the option purchaser exercises his right (to buy or sell), the option seller must meet the request.

4. Option strategies

As mentioned earlier, the disadvantage of vanilla options is the premium paid when buying the option. The premium can be fairly high, especially for an option with a distant expiry date, sizeable notional amount and favourable exercise price.

Thankfully, it is possible to create option strategies that **do not involve a premium**. Option strategies with no disbursement give you protection from unfavourable currency movements, while letting you take advantage of a favourable currency movement. However, as with anything that is free, there are limits. These strategies provide you with limited potential for gains.

Note that there are a variety of option strategies that can be adapted to your needs. The strategies introduced here are included because of their simplicity.

"Ahead of" vs. "behind" budget

The strategies below are designed for businesses that are "ahead of budget," i.e. businesses where the market rate is better than their budgeted rate.

For example, an importer is "ahead" if he a budgeted rate of 1.0000 for the next year and the current market rate is 0.9700. Conversely, this company would be "behind" if the currency was trading at 1.0200.

a) Self-financed collar

A collar involves buying and selling two options simultaneously. The expiry date and notional amount are the same for both options. However, the two options have different exercise prices. The term "self-financed" is used when no disbursement is needed to implement the strategy.

For example, an exporter who wants to hedge against depreciation must buy put options to protect its risk. To avoid paying the premium, the company could sell call options to generate revenue. The exit strategy can be structured so that the revenue generated fully finances the put options purchased.

SELF-FINANCED COLLAR

Advantages

- Protection from unfavourable currency movements
- No disbursement

Drawbacks

- Limited potential for gains
- Worst scenario not as good as a standard forward

Determinants of collar size

The *amount of protection you want* will determine the size of the collar and thus the potential for gains. The closer the protection is to the current level of the market, the smaller your potential for gains will be. Conversely, as your level of desired protection moves away from the market, your potential for gains increases.

Example – Importer

Situation

You need US\$100,000 a month to buy raw materials for the **next twelve months**. Your budgeted rate is 1.3700. The spot rate is 1.3300.

Objective

- Hedge against USD appreciation and protect your profit margin
- Benefit from USD depreciation
- Pay no premium

Collar details

- Cap: 1.3700 (budgeted rate)
- Floor: 1.3072
- No disbursement

Three scenarios are possible every month

1. **Spot rate > 1.3700:** you exercise your call option and buy US\$100,000 at 1.3700.
2. **Spot < 1.3072:** we exercise our put option. You are obliged to buy US\$100,000 at 1.3700.
3. **1.3072 < Spot < 1.3700:** neither option is exercised. You can then buy US\$100,000 at the market rate.

Example – Exporter

Situation

You expect to receive US\$100,000 a month **for the next twelve months**. Your budgeted rate is 1.2800. The spot rate is 1.3300.

Objective

- Hedge against USD depreciation and protect your profit margin
- Benefit from USD appreciation
- Pay no premium

Collar details

- Floor: 1.2800 (budgeted rate)
- Cap: 1.3592

Three scenarios are possible every month

1. **Spot < 1.2800:** you exercise your put option to sell US\$100,000 at 1.2800.
2. **Spot > 1.3592:** we exercise our call option. You are obliged to sell US\$100,000 at 1.2800.
3. **1.2800 < Spot < 1.3592:** neither option is exercised. You can then sell US\$100,000 at the market rate.

The collar lets you know in advance what the best and worst scenarios will be. Ideally, your worst scenario should be established based on your budgeted rate.

b) "Participating" forward

This strategy is created when you simultaneously buy or sell two options with the same expiry date and exercise price. Here, the difference is that the two options' notional amounts are different.

This is an ideal strategy for a business that wants to hedge against unfavourable currency movements while seeking unlimited benefits from some of the foreign currency amount.

PARTICIPATING FORWARD

Advantages

- Protection from unfavourable currency fluctuations.
- Potential for unlimited gains on a portion of the amount traded.
- No disbursement.

Drawbacks

- Limited earning potential
- A portion of the total amount to be traded is set at conditions that are less favourable than a forward.

Example – Importer

Situation

You need US\$200,000 a month to buy raw materials for the next twelve months. Your budgeted rate is 1.3700. The spot rate is 1.3300.

Objective

- Hedge against USD appreciation and protect your profit margin.
- Benefit from USD depreciation.
- Pay no premium.

Strategy details

- You buy 12 call options (Notional: US\$200,000 Exercise price: 1.3700)
- You sell 12 put options (Notional: US\$64,000 Exercise price: 1.3700)
- No disbursement

Two scenarios are possible every month

1. **Spot > 1.3700:** you exercise your call option and buy US\$200,000 at 1.3700.
2. **Spot < 1.3700:** we exercise our put option. You are obliged to buy US\$64,000 at 1.3700. The difference, 136,000, can be bought at the market rate.

Example – Exporter

Situation

You expect to receive US\$200,000 a month for the next twelve months. Your budgeted rate is 1.2800. The spot rate is 1.3300.

Objective

- Hedge against USD depreciation and protect your profit margin.
- Benefit from USD appreciation.
- Pay no premium.

Strategy details

- You buy 12 put options
(Notional: US\$200,000 Exercise price: 1.2800)
- You sell 12 call options
(Notional: US\$56,000 Exercise price: 1.2800)

Two scenarios are possible every month

1. **Spot < 1.2800:** you exercise your put option to sell US\$200,000 at 1.2800.
2. **Spot > 1.2800:** we exercise our call option. You are obliged to sell US\$ 56,000 at 1.2800. The difference, US\$ 154,000, can be sold at the market rate.

A "participating" forward contract gives you **complete protection from unfavourable currency fluctuations**. Moreover, if the currency goes up, some of your needs can be met at the market rate. In other words, this strategy allows you to **benefit fully from a favourable movement for some part of the amount to be traded** when the rate fluctuates in your favour.

Currency risk management

Steps to follow

Now that you are more familiar with currency risk and the various hedging instruments, here are four steps to help you manage this risk:

1. Define your needs and properly evaluate your exposure to currency risk



2. Choose a hedging strategy to mitigate these risks



3. Become familiar with the array of instruments available to protect you (see Products section)



4. Apply your strategy and review it as your needs evolve

STEP 1: Define your needs by answering the following questions:

- What percentage of my accounts payable and receivable is in foreign currency?
- What is my tolerance for exchange rate fluctuation? At what point is the company's profitability in jeopardy?
- Can I get a match between the expiry dates and payable and receivable amounts when they are denominated in the same currency?
- Can I bill clients for losses incurred due to exchange rate fluctuation by raising my prices?
- Do I intend to make major foreign investments in the near future?

STEP 2: Choose the appropriate hedging strategy

These are the main hedging strategies that companies use:

1. No hedging – Spot transactions only
2. Systematic and complete hedging
3. Selective and partial hedging
4. Natural hedging

a) No hedging

Some companies choose not to act and they accept the currency risk. They opt to trade at the day's rate only when the need arises. The lack of coverage usually comes from an expectation of gain or a lack of knowledge of the risks incurred.

The strategy is good for the company when the exchange rate fluctuation is favourable in relation to the budgeted rate. However, the company runs the risk of seeing its profit margin shrink if the rate fluctuates unfavourably.

b) Systematic and complete coverage

Some companies opt to hedge their risk completely and systematically. This is usually the case with companies that negotiate sale prices individually for every contract.

This strategy allows the company to guarantee its profit margins, regardless of how the foreign currency moves. However, this strategy does not allow the company to profit from favourable currency fluctuations.

Example – Systematic coverage

Situation

- You distribute trailers and are about to win a contract with a dealer in your region. The dealer commits to buying five trailers, to be delivered in six months.
- You have to set a sale price in Canadian dollars, and will be paid upon delivery in six months.
- Your U.S. supplier wants to be paid in U.S. dollars in six months. He charges you US\$500,000 for the five trailers.

Implementing the strategy

- You call your foreign currency dealer and request the exchange rate for buying U.S. dollars with a six-month forward.
- You call your client to submit your final price in Canadian dollars, based on the exchange rate and desired profit margin.
- As soon as your client accepts your price, you call your dealer to take out a six-month forward so as to fix your exchange rate.

Note that the currency market is a dynamic one and rates can fluctuate rapidly. The rate could thus be different when the transaction is concluded, depending on how much time elapses between the time the bid price is set and the time the client accepts your proposal. This is why it is best to reduce the time between the bid and the client's answer.

You have thus guaranteed your profit margin upon signature of the contract and won't have any surprises for six months. Once the contract is signed, you are indifferent about how exchange rates move. **Note: you are in business to generate profits on your daily operations, not on exchange rates!**

Systematic coverage can allow the company to be more aggressive and offer a much more competitive price when making a bid, thus allowing it to win more contracts.

Companies that don't have a hedging strategy will often include a "cushion" between the day's conversion rate and budgeted rate to protect themselves from unfavourable currency movements. The less competitive price that results from this additional margin could cost the company contracts.

For its part, a company that has the good habit of systematically covering itself upon the signature of the contract does not need as big a "cushion" when bidding. It is more competitive and can win more contracts.

c) Selective and partial hedging

This strategy is frequently used by companies that have a hard time predicting their exact foreign currency needs with any assurance. This is the case with companies that issue a price list at the start of the season or year (catalogue) and makes sales on a daily basis.

Since the total value of the sales is not certain, a company in this situation could risk being "overprotected." It could thus have to do the reverse transaction when the forward expires and incur a loss. To reduce this risk, companies often opt to partially hedge their needs.

These are some examples of methods used by companies. Note that these are examples. The list is not exhaustive.

- Protect 50% of the needs expected each month over a one-year period and convert the difference at the spot rate.
- Protect 75% of the needs forecast for the next three months, 50% for months 4 to 6, 25% for months 7 to 12, and convert the difference at the spot rate.
- Protect 90% of the needs forecast for the next month, 75% for months 2 to 6, 50 % for months 7 to 12, and convert the difference at the spot rate.

d) Natural hedging

Depending on the nature of their activities, some businesses have natural coverage. Natural coverage occurs when a company has inflows and outflows in the same foreign currency.

Natural coverage is an excellent way to reduce currency risk, **but rarely eliminates it completely.** It is highly unusual for payables to exactly equal receivables in the same currency. Generally, the company is a "net" buyer or a "net" seller. Currency risk therefore exists for the company's "net" exposure.

A lack of synchronization between cash flows can also be a problem for a company. For example, take the Canadian trailer dealer who has just sold a new trailer in U.S. dollars; the trailer is to be delivered in six months. The company must pay its U.S. supplier in just one month, but will only receive the client's payment in six months.

Although it has natural coverage, the company is exposed to currency risk as the rate for purchase in one month and rate for sale in six months are unknown. In this case, a **currency swap** would be the solution. The company would buy U.S. dollars through a one-month forward and simultaneously sell the value of its sale in U.S. dollars using a six-month forward. This would guarantee the company's expected profit margin.

Hedging strategy	Who needs it?
No hedging	<ul style="list-style-type: none"> • Companies with a negligible percentage of sales affected by international transactions • Companies whose same-currency inflows and outflows can be matched
Systematic and complete hedging	<ul style="list-style-type: none"> • Companies that negotiate each contract individually • Companies with very tight profit margins
Selective and partial hedging	<ul style="list-style-type: none"> • Companies that issue a price list at the start of the season • Companies with higher profit margins
Natural hedging	<ul style="list-style-type: none"> • Companies with the flexibility of having inflows and outflows in the same foreign currency

STEP 3: Selecting hedging instruments

You must select the hedging instrument that suits your situation best to protect you from the risks of losses stemming from exchange rate fluctuations. See the section on the various products to see which would suit you best.

STEP 4: Implementing the strategy and revising it as needed

The final step consists in implementing the strategy.

Note that managing currency risk is a dynamic process. The company must keep a close eye on their evolving needs and to market conditions, and adjust its strategy when necessary.

Conclusion

Many companies are intimidated by currency risk and avoid international trade in order not to have to deal with it. As you have seen, there are many strategies and products for protecting against currency risk.

Currency risk should not be an obstacle to international trade.

In short, here are the main things to remember:

- Currency risk is a reality for many businesses.
- Currency risk can be substantial, putting the company's survival at risk.
- Currency risk materializes well before invoicing.
- The company should focus on its operations (its area of expertise) and protect itself from currency risk.
- There are many products and strategies for mitigating or eliminating currency risk.

The hedging products and strategies presented here represent only a few of the options available.

Desjardins can also offer you a multitude of other options not covered by this reference guide.

Desjardins at your service

Since every company is different, it is essential to establish a strategy that suits your specific needs. Desjardins is here for you. We can help you develop a made-to-measure solution specifically tailored to your business.

Notice of non-responsibility

Any information on one or more financial instruments is provided as is, for information purposes, even though it has been established based on serious, respected and reliable sources.

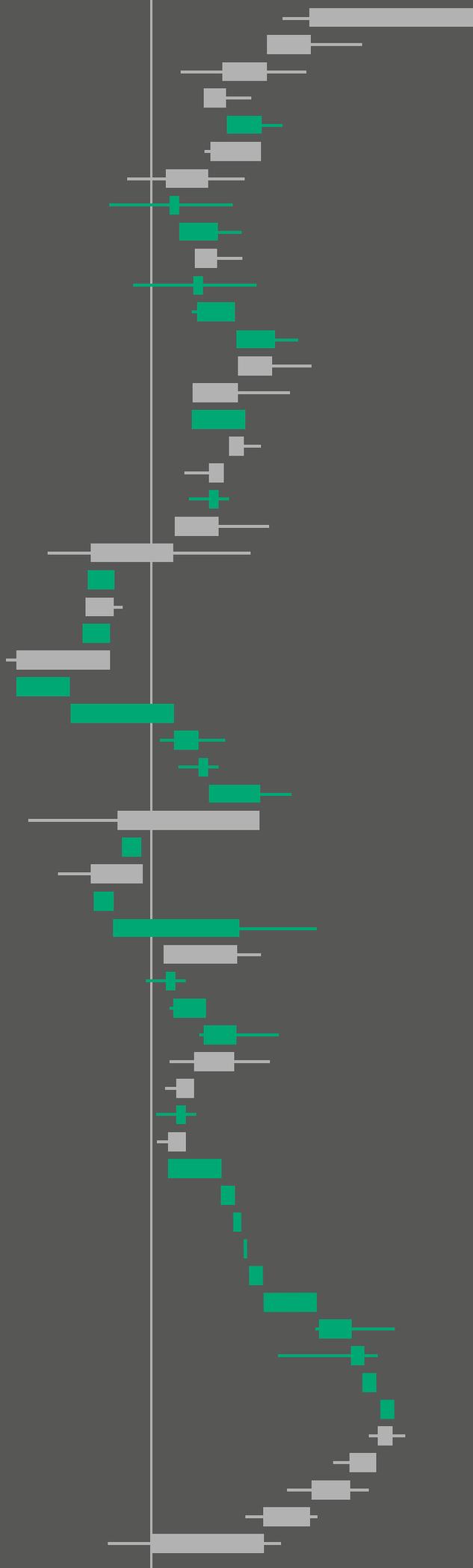
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