



E-start

Exchange Rate Risk Mitigation Model

Welcome to E-start

The application will help you to estimate the possible exchange rate loss of your receivable or payable.

Last update of the application was on 2.12.2019

Test version

Start

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Our target is to provide supportive information required for your decision making process in relation to foreign trades, both receivables and payables.

In just a few steps, you should be able to find out how stable the currency you want to trade in is, and what the expected loss might be. This information will help you select the contract currency, maturity, pricing and cash flow planning.

In the first step lets choose between receivables and payables contracts.

In our example we will use a receivables contract.

Click on the Next button

Let's choose between the exchange currencies.

There are two options on the screen. On the left, there is the currency of the contract (sales – receivable) and on the right there is the target currency (purchase – payable).

The arrow shown between the two options enables you quick switch between the currencies easily, if you wish.

Next, the amount needs to be inserted into the chosen currency box - If you know the contract price and want to know how much money you are likely to receive at maturity enter the amount in the left checkbox.

- If you are at the costing or pricing stage and you have an in idea of how much you would like to receive, enter the amount in the right checkbox. Now click on the Next button.

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Exchange Rate Risk Mitigation Model

Contract start date	Number of days to maturity	Due date
01.10.2019	365	30.09.2020

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On this screen we are considering the maturity of the contract, that is, when payment may be expected to be received (or paid, depending on whether we are selling or buying). Enter the contract start date in the checkbox on the left of the screen. Then enter either the number of days to maturity, or the maturity date - the other box will be automatically filled by the application. Then click the Next button.

TIP: The model works best for contracts with maturities of up to 1 year.

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Exchange Rate Risk Mitigation Model

Recapitulation

Contract currency	Contract type	Target currency
AUD	Sales contract value (receivable)	1 000 000 CZK
Start date	Number of days to maturity	Due date
01.10.2019	365	30.09.2020

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Summary. On this screen you can check the information you have entered is correct. If you wish to make changes you can. Simply select the Back button at the bottom left side of the screen to return to the appropriate screen where you can make the desired changes. Once you are satisfied with the data entered, click on the Next button.

The application will do some calculations and the screen will display the summary of the data entered at the top, with the results of the enquiry you made just below that.

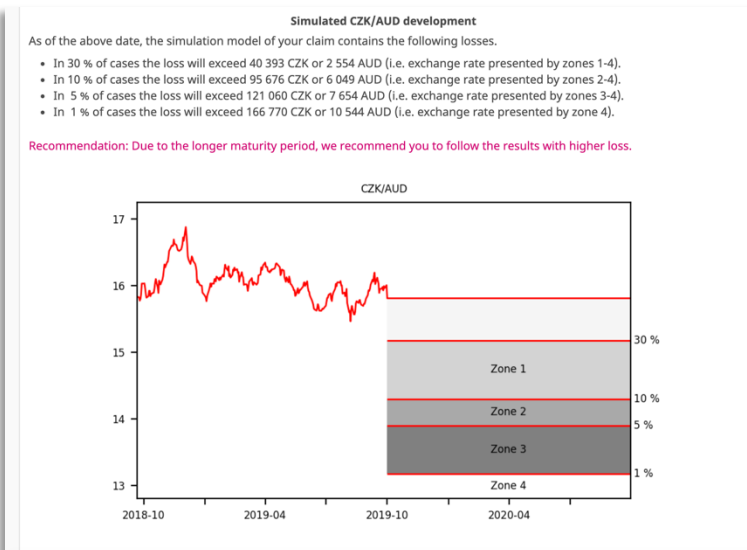
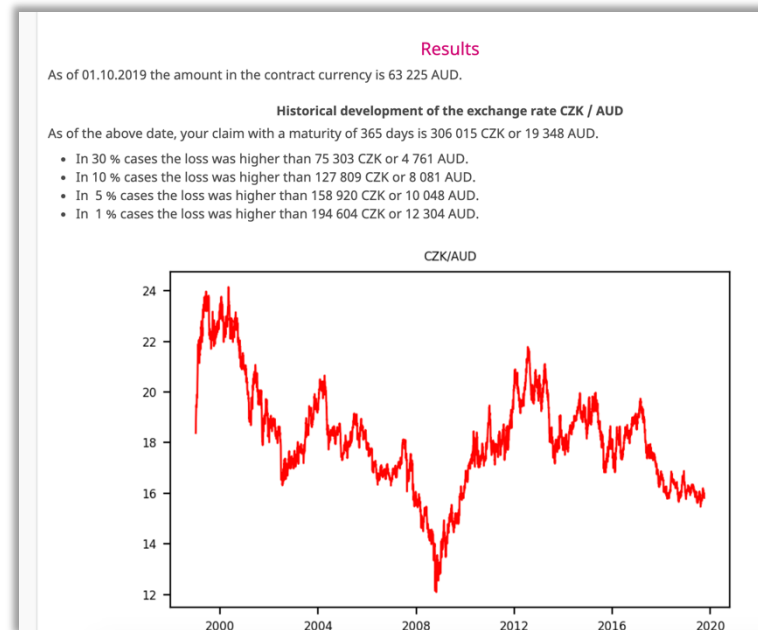
We start with the information about the expected maturity amount with the exchange rate at the date of commencement of the contract.

Below this, the screen displays the largest historical loss on a similar contract. In this case, you can see that in 30 % of cases the loss was higher than AUD 4,761. In 1 % of cases, the loss exceeded AUD 12,304.

The first top chart shows the history of exchanges rates of both currencies since 1999. This may be regarded as a first indicator of the currency's stability and may assist in considering whether this is an acceptable currency to use, or not.

However, our real interest is the likely future outcome of the transaction.

The simulation tools predict that in 30 % of cases the potential loss could be higher than AUD 2,554. Only in 1 % of cases could the loss be higher than AUD 10,544.



These amounts can be an indicator of what buffer we may wish to add to the final price. Alternatively, they may be an incentive to secure a forward exchange contract to mitigate likely exchange rate losses.

Zones 1-4 on the screen show where the exchange rate fluctuates in the cases calculated in the results.

In the case of contracts with a maturity of more than 180 days, it is recommended to use the higher loss options because of the increased uncertainty caused by the increment of time, that is, the longer the maturity period, the higher the likelihood of unforeseen events.

You can try the application at this address <http://var.ef.jcu.cz>.