

Hedge only what matters

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Hedge an investment made in order to reduce the risk of losing money on shares, bonds, etc. that you own, for example, by buying futures (= agreements to sell shares for a particular price at a date in the future) or options (= the rights to buy or sell shares for a particular price within a particular time period)

Term

Benefits

Also, since the objective of hedging currencies is to minimize losses, it can also allow traders to survive economic downturns, or bearish market periods. If you are a successful hedger, you will be protected against inflation, interest rate changes, commodity price volatility and currency exchange rate fluctuations.

Disadvantages

- Hedging usually involves huge costs and expenses that can eat up a big chunk of your profits.
- Hedging is not ideal for beginner investors because it can be quite difficult to understand.
- Currency hedging can be an investment trap if you think that it is without risks.

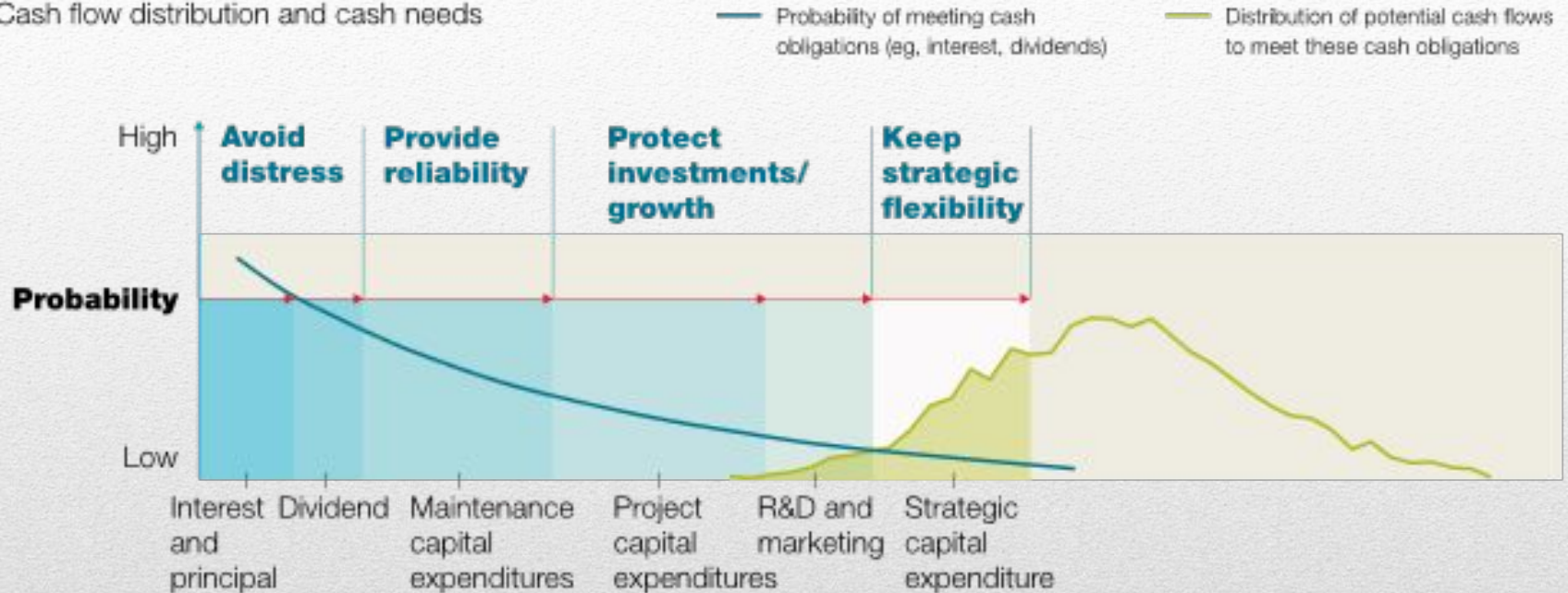
Benefits and Disadvantages of Currency Hedging

How does Hedging work?

- 1 Import goods** from United States – convert GBP into USD when paying invoices
A diagram showing a factory with a UK flag on the left and a factory with a US flag on the right. An arrow points from the US factory to the UK factory, with a small boat icon below it, representing the import of goods.
- 2 Set your pricing** for the year in advance – based on suppliers input costs and the USD price at that time
A diagram showing a factory on the left and a group of people labeled 'Customers' on the right. An arrow labeled 'PRICE' with a padlock icon points from the factory to the customers, indicating that prices are locked in.
- 3 Calculate exchange rate fluctuations** over the course of the year – assess the impact on your margins/profits
A diagram showing a factory in the center. An arrow labeled '\$ Revenue' points into the factory from the left, and an arrow labeled '£ Costs' points out of the factory to the right.
- 4 Protect your profit margins** by hedging a portion of your foreign costs
A line graph showing the GBP/USD exchange rate fluctuating over time. A vertical dashed line marks a point where a 'Hedge locks in prices', and an arrow points to the right from that point, indicating that the rate is fixed.
- 5 Do business with confidence** by locking in an exchange rate, and improving your cash flow
A diagram showing a dollar sign (\$) on the left and a pound sign (£) on the right, with a padlock icon in the center between them, symbolizing a locked-in exchange rate.

Currency Hedging

Cash flow distribution and cash needs



Companies should develop a profile of probable cash flows—a profile that reflects a company-wide calculation of risk exposures and sources of cash.



Thanks for attention!
