FX RISK MANAGEMENT IN EXOTIC CURRENCIES
Sept. 14th, 2016
God save the kwacha.

That’s what Zambian President Edgar Lungu wants his people to pray for on a national day of devotion and fasting on Sunday to reverse a decline in the world’s worst currency and fix a litany of problems from plunging copper prices to electricity shortages.

All bars, nightclubs and entertainment venues have been instructed by the government to shut on the day, while the Football Association of Zambia has canceled domestic games. Church leaders are rallying their members to heed the president’s call in a nation where more than 80 percent of the 15 million population are Christian.

“These days are like the last days,” Gordon Chanda, a driver for a law firm, said as he sipped a Mosi beer at Sylvia’s Comfort bar, taking cover from a heat wave that hit the capital, Lusaka, this week. “We need more prayers.”
TCX – A Time-Tested Global Solution to Absorb FX Risk

• Cooperative DFI effort to promote Private Sector LCY Lending (US$640m capital, offers hedges in 70+ currencies, US$4bn+ hedged)
• Works with commercial banks and institutional investors to deepen local markets: additionality + risk-reflective pricing
• Scaleable solution: global diversification and stable operating costs.
TCX Impact Focus

- Repeat in climate/SE4All finance the transformational impact achieved in micro finance (German BMUB E30m investment),

- while contributing to deepening of local markets.
TCX Global Portfolio Diversification

Annual fluctuation of individual currencies versus portfolio of currencies
Financial Instability is a constant

Currency crashes: The share of countries with annual depreciation rates greater than 15 percent, 1800-2007, Reinhart and Rogoff, 2010
Speculate on Complex Outcomes?

- Political stability
- Fiscal discipline
- Sound monetary policy
- Open and liquid capital markets
- Economic growth
- Infrastructure development
- Diversification of the economy
- Poverty reduction and wealth distribution
- Economic performance of trading partners
- USD interest rates
- Global crises
- Floods
- Regional conflict
- Aid and donor flows
- China?
- Commodity prices
- Drought
- Oil shocks
- Aid and donor flows
- Economic performance of trading partners
- USD interest rates
- Global crises
- Floods
- Regional conflict
- Aid and donor flows

TCX
the currency exchange fund
“I did a lot of infrastructure development in my life, to fund them with foreign currency is madness. OK? Madness.”

Tidjane Thiam
Credit Suisse Group AG Chief Executive
6 October 2015
TCX provides FX hedging tools for:

- DFIs and specialized funds
- Commercial banks to deliver customer friendly Icy financing solutions and use deposits
- Capital market solutions (paper placements, warehousing)
- SHS Providers, Projects, and Utilities
Market/Risk Reflective Pricing

• From underlying benchmark markets (extrapolating off-shore or government bonds)
• In absence of benchmarks TCX estimates risks and prices with macro-fundamental models.

Objectives:
• Be financially sustainable (double bottom line)
• Allow private capital to compete (additionality principle)
Global Coverage

http://www.tcxfund.com/products/currencies-capabilities-map

More currencies can be offered based on demand, please contact request@tcxfund.com should you wish to trade a country that is not listed.

Countries and benchmarks

<table>
<thead>
<tr>
<th>Country</th>
<th>ISO</th>
<th>Floating Rate Benchmarks</th>
<th>Source of data*</th>
<th>Max. Fixed Rate Tenors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Albania</td>
<td>ALL</td>
<td>6 months T-bills (avg deal tenor &gt; 3 yr)</td>
<td>Bank of Albania</td>
<td>10 yrs fixed</td>
</tr>
<tr>
<td>Algeria</td>
<td>DZD</td>
<td>6 months T-bills</td>
<td></td>
<td>10 yrs fixed</td>
</tr>
<tr>
<td>Angola</td>
<td>AOA</td>
<td>6 months T-bills</td>
<td>Banco Nacional de Angola</td>
<td>7.5 yrs fixed</td>
</tr>
<tr>
<td>Argentina</td>
<td>ARS</td>
<td>180 day BAIBOR</td>
<td>Bloomberg. The code is: ARLBP180 Index</td>
<td>15 yrs fixed</td>
</tr>
<tr>
<td>Armenia</td>
<td>AMD</td>
<td>6 months T-bills</td>
<td>Central Bank of Armenia, under &quot;Publications&quot;, &quot;Messages and announcements&quot;.</td>
<td>15 yrs fixed</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td>AZN</td>
<td>No floating rate benchmark available</td>
<td>Baku Stock Exchange, in the press releases, T-bonds results</td>
<td>4.5 yrs fixed</td>
</tr>
</tbody>
</table>
USD PPAs Burden the Wrong Shoulders

FX Risk

IPP \rightarrow PPA \rightarrow Utility \rightarrow Tariff \rightarrow Customer

Tax payer \rightarrow Government

USD Lenders
shared commitment to local currency

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