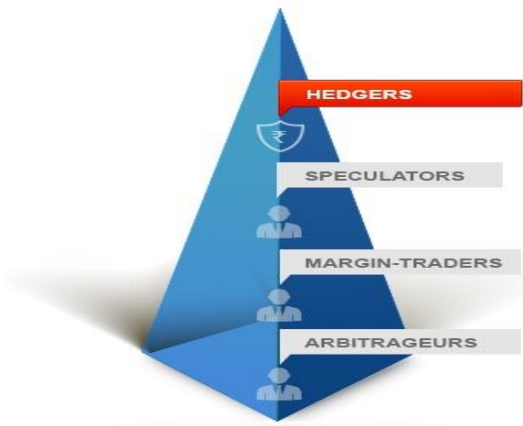


Let's talk derivatives

Dual Currency Deposits (DCD)



With the ascension of the Dollar on the market, we are all worried about how to face the cost factor in this highly competitive market. The time is now to change our investment behavior by adopting more of derivative foreign exchange products rather than the plain vanillas.

Dual Currency Deposits [DCDs] can be an interesting product reducing a client's foreign exchange risk.

A Dual Currency Deposit [DCD] is not only driven by its name "deposit" where your capital is at risk but is also a structured product, composed of a fixed deposit in one currency with an option to buy another currency at the maturity date. DCDs are normally short-term investments allowing attractive interest rates because of the currency risk.

How does it work?

Both parties will agree on the following terms:

- Investment amount
- Currency involved
- Maturity date
- The strike price (the rate at which the depositor will agree to exchange the Principle amount to another currency).

The interest is earned in the originating currency and the principal can be in another currency at maturity, should the depositor exercise the option.

In a simple way!

An investor earns USD and will need to Pay Euro in 7 months. The actual EURO dollar rate is at 1.2050 and the investor's EUR/USD forecast in 7 months is at 1.1985.

Therefore, instead of exercising a forward swap transaction, the investor can place his USD with the bank for a period of seven months and cash out his EUR at the Strike price of 1.1985 on maturity, earning interest on the USD as well.

However, if the strike price is not exercised, interest have been earned on the dollar deposit, reducing the investor's foreign exchange risk!



DID YOU
KNOW?

During the 13th century in Italy, one of the first derivative uses between the government and its people was formed: the "monti". Monti shares were supplied by cities as promises to repay debts and raise money, but shortly after their issuance, people began using montis as a form of currency to pay for commodities and services. Since montis value rose and fell with the wealth of the cities it was issued in, it wasn't a stable currency and eventually ceased to remain significant. But this didn't matter as some of Europe's first trade markets were forming.

Tel: (230) 206 8017 **Email:** Treasury@abcbanking.mu **RD Code:** ABCO **Bloomberg Code:** ABBS

The comments and data displayed in this research document are for information only and reflect the personal opinions of our dealers and other market participants. Readers are encouraged to perform their own assessment before undertaking dealing decisions. ABC Banking Corporation Ltd, its staff and agents shall not be responsible or liable to any claim or loss resulting from the use of the above information in relation to decision making.

ABC BANKING CORPORATION LTD

WEAL HOUSE, Duke of Edinburgh Avenue, Place d'Armes, 11328, Port Louis, Mauritius

Tel: (230) 206 8000 **Fax:** (230) 208 0088 **Web:** www.abcbanking.mu **BRN:** C07018920

