



# AKA Trade Finance Dialog 2019

Supporting German Africa-Portfolios via local currency  
hedging

# Structure of Presentation

## Part 1

- a) Why Development Policy Should Focus on FX-Risk Management
- b) TCX: Mission, Business Model, and Services

## Coffee Break

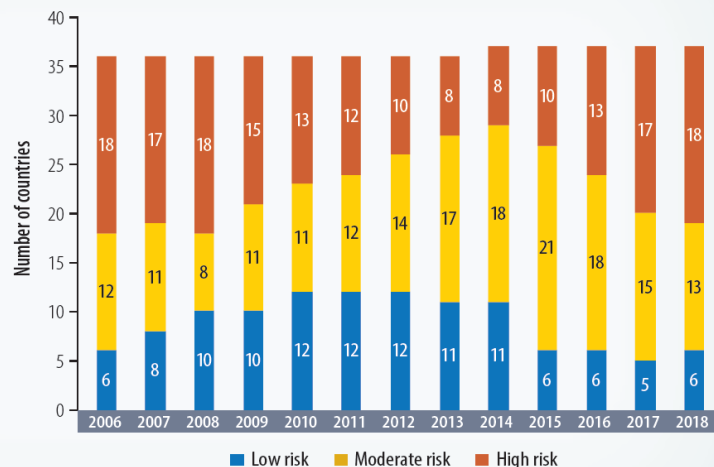
## Part 2

- a) How can TCX and German banks support investment in Africa?
- b) Technical aspects: onboarding, pricing and valuation, ISDA/CSA.



# Rising debt distress in Africa

FIGURE 2.15: Evolution of the Risk of Debt Distress: LIC DSF Countries in Sub-Saharan Africa

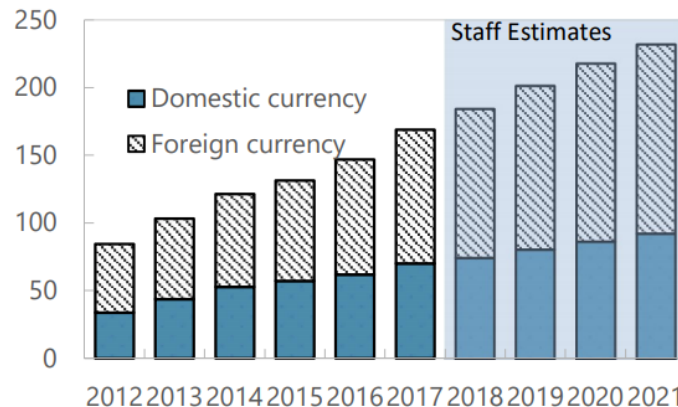


Source: World Bank/IMF LIC DSA database.

Note: Covers all IDA-eligible countries with LIC DSAs, including inactive countries.

*Increased dependence of foreign currency debt increases external vulnerabilities.*

Currency Composition of the Low-Income Countries' Debt



Source: IMF *World Economic Outlook*.

# Local Currency Financing....

- **Is fair.** It protects borrowers who often lack understanding and capacity to manage FX risk.
- **Is transparent:** It makes the real price of money visible, debt service predictable and financial planning possible.
- **Is crucial to grow local capital markets,** the ultimate solution for long term local financing.
- **Supports macro stability:** Large capital in- and outflows boost risk of banking and currency crisis.
- **Is simply the right product for local currency earners.**

# TÇX



KFW

FMO  
Entrepreneurial  
Development  
Bank

European  
Investment  
Bank  
*The EU bank*



AFD  
AGENCE FRANÇAISE  
DE DÉVELOPPEMENT

IFC  
International  
Finance Corporation  
WORLD BANK GROUP



DBSA  
Development Bank  
of Southern Africa



mf  
MICROFINANCE  
CURRENCY RISK SOLUTIONS

EFSE  
EUROPEAN FUND FOR SOUTHEAST EUROPE

BIO  
Belgian Investment Company  
for Developing Countries

PROPARCO  
GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT

COFIDES  
We invest in development

OIKO  
CREDIT  
Investing in people

Oxfam Novib

BlueOrchard  
Impact Investment Managers

FONDATION GRAMEEN  
CRÉDIT AGRICOLE  
Microfinance & Social Business

IDB  
Inter-American  
Development Bank



Ministry of Foreign Affairs of the  
Netherlands



Federal Ministry  
for Economic Cooperation  
and Development



Federal Ministry for the  
Environment, Nature Conservation  
and Nuclear Safety

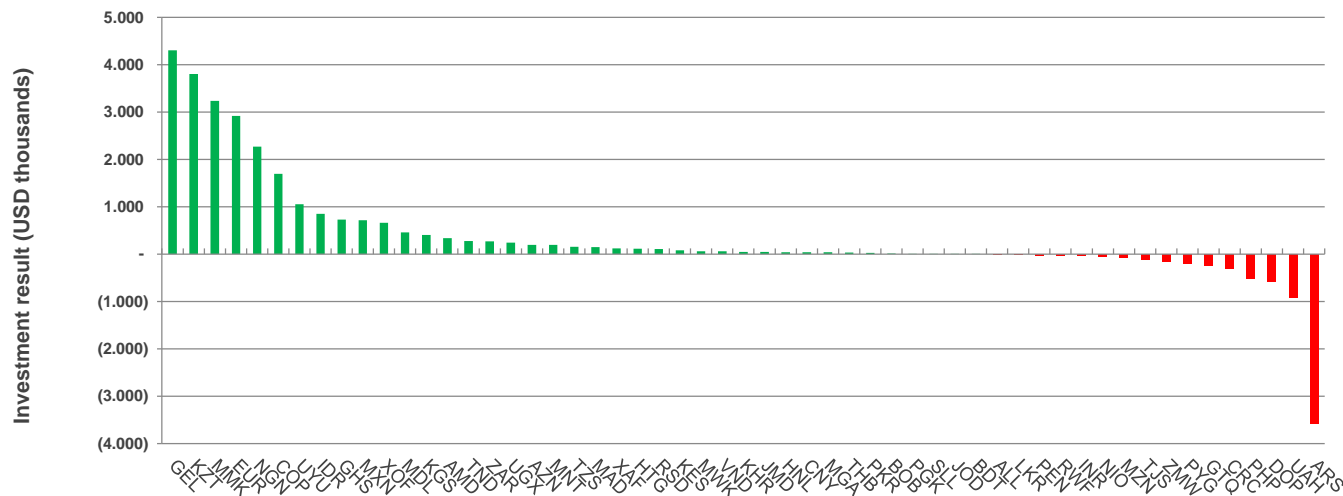
UKaid  
from the British people

## Sovereign First Loss Investors

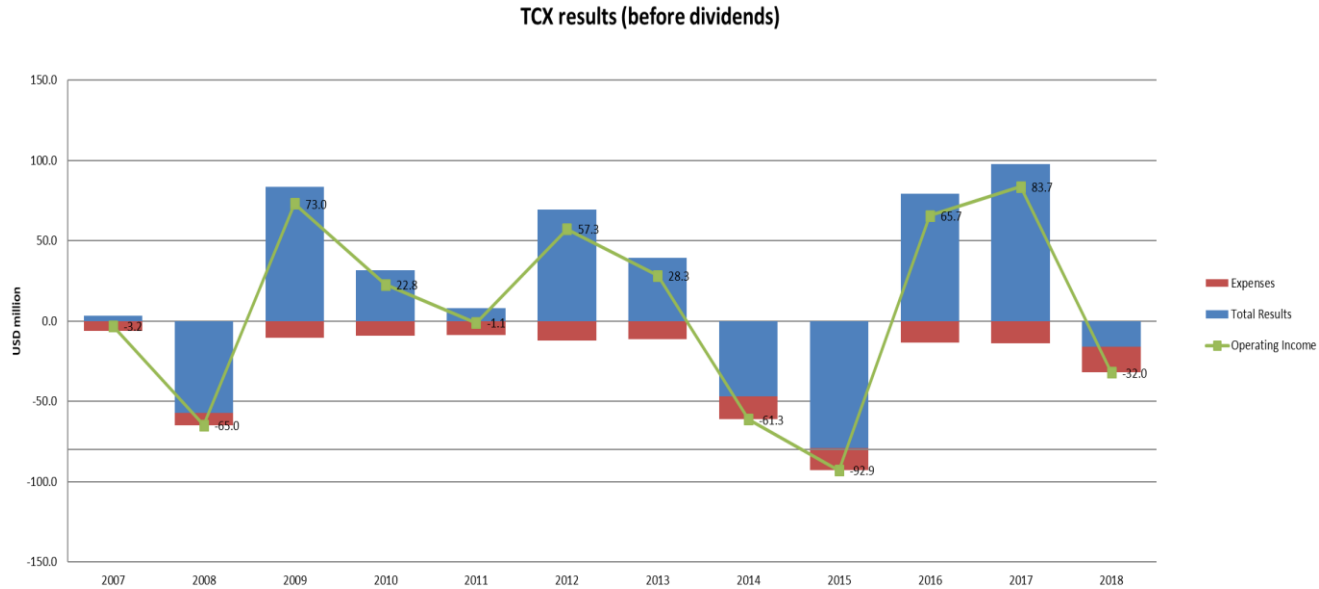


# A broadly diversified portfolio

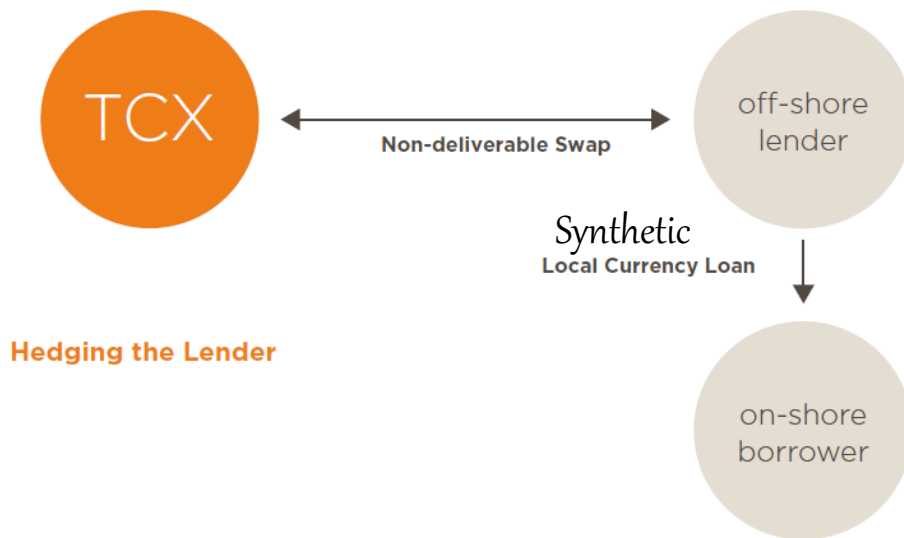
TCX Derivatives Portfolio : Cumulative Results 2018



# ... sustainably absorbs global risk.



# TCX's main product: Non-deliverable Cross-Currency Swap





# Coffee Break



# TCX trading relation – Key conditions

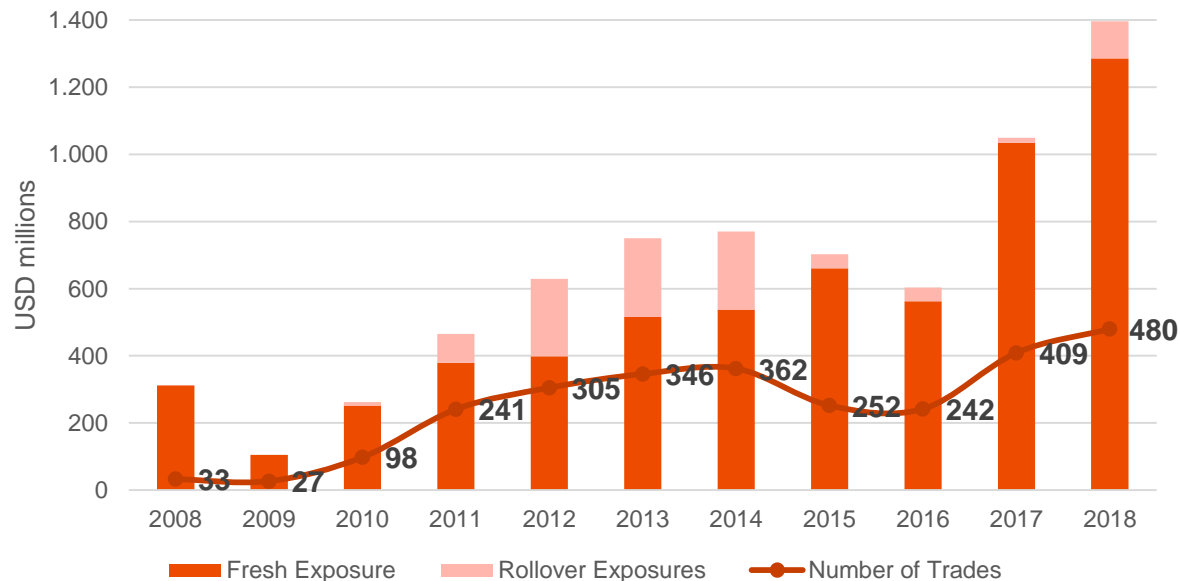
<b>Products</b>	<ul style="list-style-type: none"><li>• Non-Deliverable Cross Currency Swap or Forward (TCX receives fixed or floating LCY rate and pays USD fixed or floating)</li></ul>
<b>Tenor</b>	<ul style="list-style-type: none"><li>• Min. 2 years</li></ul>
<b>Regulation</b>	<ul style="list-style-type: none"><li>• ISDA/CSA -&gt; no credit risk</li></ul>
<b>Additionality</b>	<ul style="list-style-type: none"><li>• Only frontier currencies where there is no market/liquidity</li></ul>
<b>Non-Speculation</b>	<ul style="list-style-type: none"><li>• TCX only hedges positions connected to real economy</li></ul>

# TCX Coverage

- TCX offers hedges in **90+** countries from the OECD DAC list
- Current exposure in **50+** countries

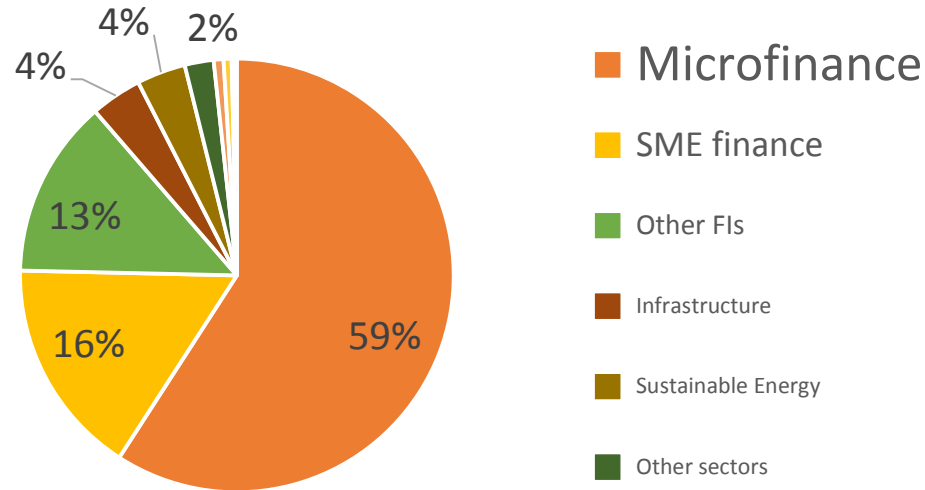


# TCX Production Volumes (Number of trades)

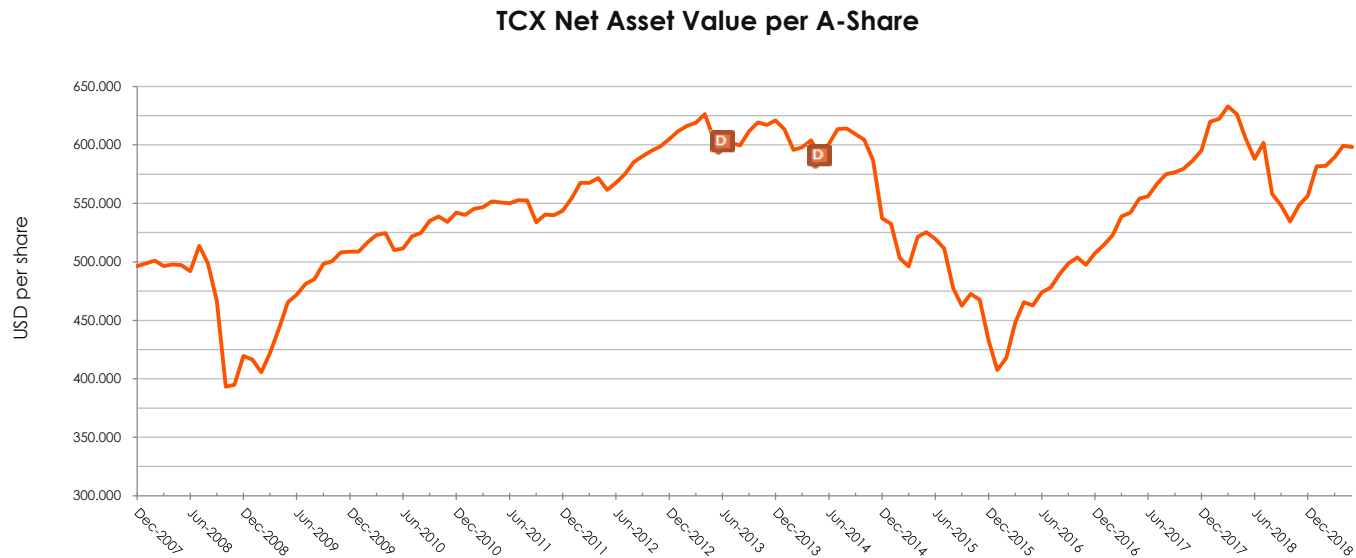


# TCX Production – Sectoral Overview

(as of 31/03/19)



# TCX Performance



# TCX Pricing

- Market and risk-reflective pricing
- Pricing reference is the Non-Deliverable Forward (NDF) curve
- If no NDF curve available, TCX adjusts the domestic benchmark to achieve NDF-type pricing
- TCX only has Shareholder and Non-Shareholder pricing
- Verification by Independent Pricing Committee (PC)

# TCX Price list – SSA currencies (5y tenor)

Currency	TCX Pricing vs. LIBOR flat	Local Government Bond Rate
RWF	8%	11.3%
NGN	11%	14.5%
UGX	11.5%	15.0%
ZMW	22%	30.5%
GHS	19%	20.0%
XOF	4%	5.8% - 6.5% (depending on country)
...	_%	_%



# TCX Valuation

- Parameters are set by the Pricing Committee (PC)
  - Approved benchmarks (floating rate, FX rate reference)
  - Longer term onshore interest rate references
  - Offshore rate references
  - Non deliverable/liquidity adjustments

-> Established per transaction and monthly revised for portfolio
- Within the parameters set by the PC BO TCX value the portfolio by producing on- and off-shore curve
- Plausibility check for all transactions
- All source data has maintained (hard copy/ electronically)
- Deal unwind commitment **only** in case of counterparty default
- TCX uses **same** valuation curve (same for all of its shareholders)

# Relevant Questions

1. Can LCY trades be booked?
2. Can LCY trades be valued?
3. Feel free to ask any other questions ... !

# Q&A

The Currency Exchange Fund N.V. (“TCX” or “the Fund”) is an Alternative Investment Fund within the meaning of article 4:1 of the European Alternative Investment Fund Managers Directive. It is based in Amsterdam, The Netherlands, and is open to Professional Investors only.

TCX’s fund manager is TCX Investment Management Company B.V. (“TIM”), a company based in Amsterdam, The Netherlands, that is licensed as an Alternative Investment Fund Manager by the Financial Markets Authority of The Netherlands.

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