

Systematic Hedging

Add α | Reduce costs

Why - Systematic Hedging | Hedging is typically seen as cost-centre or responsibility-centre activity to execute *some* cover, *some* way for *some* time blessed by *some* hedge-policy. Systematic-Hedging enriches you with compelling choices & tools to set-and-pursue better -hedge policies & practices on an evolving and on-going basis – directly resulting in a **well-earned** hedge performance and lower hedge-costs as **illustrated** in this exercise.

USDINR | 2001-2012 | Illustrative Economics | comprises (1)Carry – interest differential(2) Capital gains/loss both indexed to INR 100 of initial capital for ease of understanding carry ,capital gains & Total economics. Importers or Foreign Capital Investors in INR are Short Foreign Currency-FCY whilst Exporters are Long FCY. Typically as(INR interest rates) > (USD interest rates) Long USD hedge has carry Losses and seeks to offset Capital moves on Investments or Payables. Short USD hedges enjoy Carry Positives and seeks to offset Capital moves on Receivables.

Exporters

Short Hedge 132 |Carry costs of **+50 (150-100)** and capital Gains of **-18 (82-100)**. Hedge Cost is -32(100-132)

Systematic Short Only |168|

Hedge- α

How earned?

Stems from an affirmative choice to square-off when moves are in our favor and re-hedge when the moves are against us – as played out through a **one-side** participation (Short- 0-Short-0) or (Long-0-Long-0) on a **Systematic Trading strategy**. The core driver in systematic hedging is a learned (dis /re)- engagement with Market as against a blind faith commitment of policy costs on one-direction for the entire time horizon.

Importers

Capital hedge

Long Hedge 68 |Carry costs of **-50 (50-100)** and capital Gains of **+18 (118-100)**.

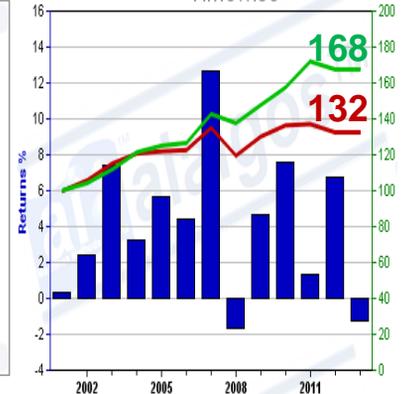
Hedge Cost is 32(68-100)

Systematic Long Only |125|

Hedge | shorts



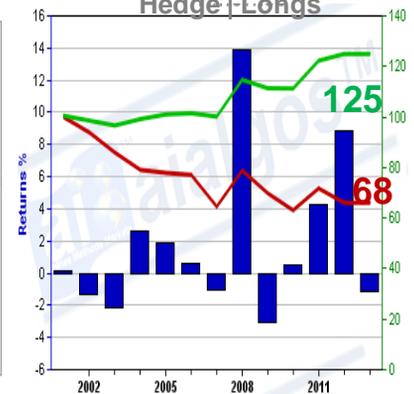
Systematic Hedge | shorts



Hedge | Longs



Systematic Hedge | Longs



Conclusion

Systematic Hedging adds alpha to your Hedge performance in form of reduced hedge costs for pursuit of **same policy bias**.

Set your Hedge-policy in an environment of on-going learning and inputs to policy calibrations

100 INR CAPITAL	Performance		
	Hedge	Systematic Hedge	α
USDINR Short	132	168	+36
USDINR Long	68	125	+57