

Swaps - nothing is more powerful or relevant for client's hedging

Barclays to provide US client swaps clearing through Eurex -The Trade News Jun 13, 2019

Brexit nudges new Trad-X swaps service to Paris- Risk.net Jun 11,2019

China to encourage more private firms to do debt-to-equity swaps-Reuters Jun 5, 2019

Swaps, what are they? To many, they are complex and confusing. To people who know them, it's one of the most powerful tools available in financial management. Simply put, a swap is literally where two parties exchange two risks between them under agreed conditions at an agreed price. It can literally be any risk.



Over history there had been some strange swap agreements which no interest except between those parties would have involved.

A swap is a derivative contract through which two parties exchange the cash flows or liabilities from two different financial instruments. Most swaps involve cash flows based on a notional principal amount such as a loan or bond, although the instrument can be almost anything.

Swaps in the finance markets is huge. The bigger markets are standardized and at an extreme level, some have become traded on exchanges with fixed standard parameters such as tenor and size and underlying's. The nature of swaps means their real strength is in how flexible they are and how they are tailored to match corporate needs.

The most powerful value of a swap is in hedging. A typical example is where a corporate has a risk; commonly an irregular cash flow and often it is something that is not his underlying business. The corporate wishes to hedge this risk to concentrate on making money on his primary business, such as making cars. He may have financial obligations, such as a loan which has a regular repayment structure. A swap allows the corporate to hedge these two risks. A car manufacturer doesn't want to run interest rate hedge, and possibly end up having a fantastic year selling cars but end up losing money due to interest rate shifts. As a result of the capabilities of swaps, it helps business to operate professionally. The swap markets have grown historically to become extremely large and important. They have been around for centuries and will always be here to help entities manage risk.

Whether you are a trader, salesperson, risk manager or involved in corporate treasury understanding the complexities, power and risks involved in swaps is a must for financial professionals.

As always it starts with knowing the fundamentals

The **Intuition Know-How Library** consists several Courses related to this article:

- **Swaps (19 tutorials)**

For **Intuition blended learning** related to this article, some of our popular workshops include:

- **Interest Rates, Yield Curves and Derivatives – Sales & Risk**

The topics covered in Intuition Asia Perspectives are current developments or topics currently in the market. Intuition Asia provides bespoke learning solutions, both eLearning and Instructor-led courses. These can also be blended in a program to provide the most effective form of learning. These workshops can be structured as lunch & learns, webinars or full day deliveries. Clients can use these to keep their workforce updated with the latest developments in the market and complete their mandatory CPD learning hours.

Get in touch with your Intuition account manager at asiainfo@intuition.com for more details.



Get the app