



## Client Guide

Foreign exchange rate?

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# term

Price of the currency on the FX market is called exchange rate expressing price of currency showed in units of another currency.

Currency designation includes three letters where the first two letters indicate the name of country whereas the last letter indicates currency name



## RSD Republic Serbia Dinar



JPY Japanese Yen

GBP Great Briatain Pound

AUD Australian Dollar

DKK Danish Krone



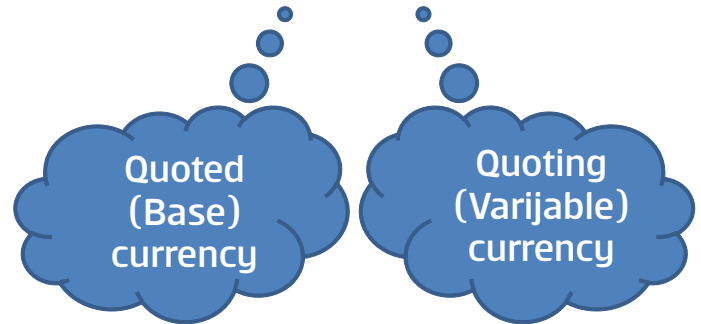
**Quoted currency/Base currency** is in exchange rate setting which is always in the first place and refers to one or one hundred units of a currency.



**Quoting currency/Variable currency** is always in the second place in exchange rate setting and indicates how many of its units are exchanged for one or one hundred units of a quoted currency.



# EUR / RSD





**1 Base currency unit / X Variable currency units**

**1 EUR / 117 RSD**

**100 EUR / 11,700 RSD**

**1,000 EUR / 117,000 RSD**

# Middle exchange rate

Middle exchange rate in relation to EUR is determined by the National Bank of Serbia based on achieved exchange rates on the national and international market.

Middle exchange rate is published on the National Bank of Serbia site at the end of day approximately at 6 p.m., whereby it is valid i.e. effective on the next business day.

At the beginning of each business day, the National Bank of Serbia fixes official RSD middle exchange rate to other currencies applying the principle of properly crossed exchange rates, in accordance with cross-currency relations on the international FX market at the time of exchange rate fixing.



Middle exchange rate fixing is stipulated in the National Bank of Serbia "Decision on Terms and Manner of Foreign Exchange Market Operation".

[www.nbs.rs](http://www.nbs.rs)



## Курс динара >>>

EUR/RSD званични за 05.11.14.

Курс	Д-Д	М-М	Г-Г	ОПГ
119,2822	-0,1	-0,2	-4,3	-3,9

USD/RSD индикативни на 04.11.14.

Курс	Д-Д	М-М	Г-Г	ОПГ
95,3495	-0,3	-1,4	-11,3	-12,8

(-) депрецијација – слабљење динара у %

(+) апрецијација – јачање динара у %

# Market exchange rate

RSD/EUR market exchange rate is current exchange rate on the local interbank market quoted among banks and generated based on FX offer and demand.

In relation to middle exchange rate, market exchange rate is a variable category which constantly changes and which is impacted by offer and demand, and reflects current FX market condition.



Market exchange rate is freely set up on the market, including occasional interventions by the National Bank of Serbia, as necessary, in full compliance with the decision on setting out RSD exchange rate regime, based on which the National Bank implements such regime guided by floating rate.

**Market and middle exchange rate are interrelated, because market rate is current category i.e. reflection of current situation whereas middle exchange rate is a historical category i.e. average balance of exchange rates of executed transactions of previous day.**



# Forward rate

Forward rate is an exchange rate based on which forward FX buying and selling are executed i.e. it is a pre-determined exchange rate between two parties for FX buying and selling on a future date.



Forward rate is a calculation category and it is fixed based on current exchange rate of currencies subject to buying and selling and interest rates to these currencies.

This means that forward rate calculation is based on the exchange rate by which currencies may be obtained today and at interest rates applicable on the money market, at which currencies may be lent and/or borrowed in order to be available on a future date.

When calculating forward exchange rate, a seller of currency on a future date uses current rate based on which currency sold on a future date (within forward), e.g. euro, will be bought, interest to be received for lend euros, whereby such placement becomes due on an agreed date (when euros need to be sold), and interest to be paid to RSD borrowing, whereby such borrowing becomes due on an agreed date (when RSD needs to be bought).



# Forward rate

Forward rate is not a projection of a future exchange rate, but solely the calculation category ensuring the equalisation of forward FX buying and selling with the result which would be generated based on lending and borrowing FX on the money market.

Presentation of forward rate set-up for selling EUR on a future date



# Exchange rate list

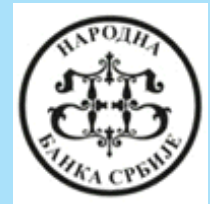
On a daily basis, at the beginning of business day, the Bank freely sets up and announces its corporate exchange rate list and retail exchange rate list.

Bid and ask rates in its exchange rate list are freely fixed by the Bank applying the margins on pre-defined middle exchange rate by the National Bank of Serbia.

Bid and ask rates are the limits within which the bank must move when buying and selling FX.

KURSNA LISTA / EXCHANGE			
		KUPOVNI / WE BUY AT	PRODAJNI / WE SELL AT
 EMU	EUR	95.130 1	1000 130
 AUSTRALIJA	AUD	608 100	645 742
 KANADA	CAD	636 18 1	6 7556 1
 DANSKA	DKK	00000	00000
 JAPAN	100 JPY	00000	00000

The National Bank of Serbia fixes middle exchange rate EUR - RSD based on generated exchange rates on the local interbank market, whereas middle exchange rate to other currencies is defined at the beginning of business day applying the principle of correctly crossed rates, in accordance with cross-currency relations on foreign markets effective at the time of setting up such exchange rates.



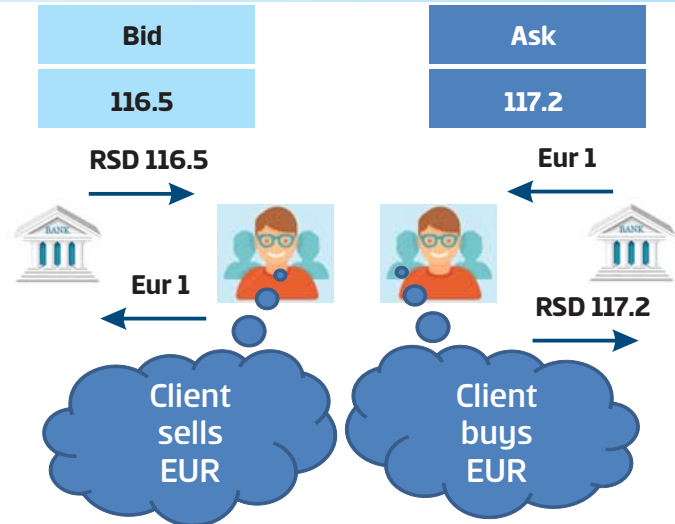
# Buying and selling exchange rate

**Bid rates** indicate how many units of a currency are given i.e. sold by the bank when buying another currency from a client

**Offer/Ask rates** indicate how many units of a currency are demanded i.e. bought by the bank when selling another currency to a client.

1 Base currency unit / X Variable currency units

**EUR / RSD  
116.5 ; 117.2**



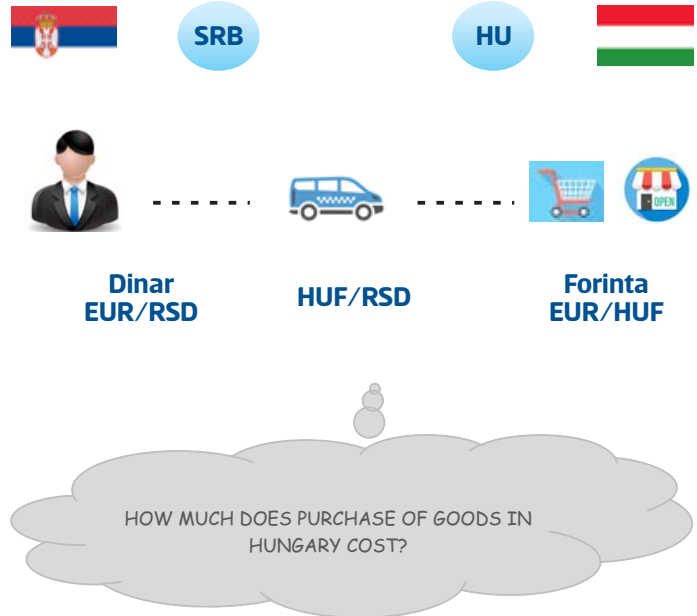
Erste Bank provides FX buying and selling services at preferable exchange rate in comparison to exchange rate list.

# Cros rates

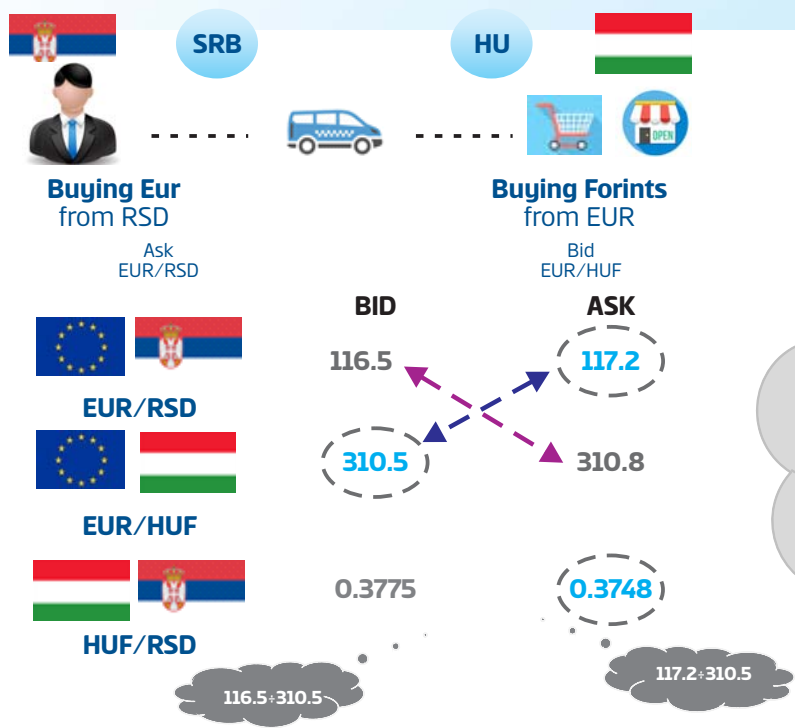


... The National Bank of Serbia fixes middle exchange rate EUR - RSD based on generated exchange rates on the local interbank market, whereas middle exchange rate to other currencies is defined at the beginning of business day applying the principle of correctly crossed rates, in accordance with cross-currency relations on foreign markets effective at the time of setting up such exchange rates...

Cross rates principle may be applied in activities on a daily basis, when, using such methodology, costs of buying abroad may be determined.



# Cros rates



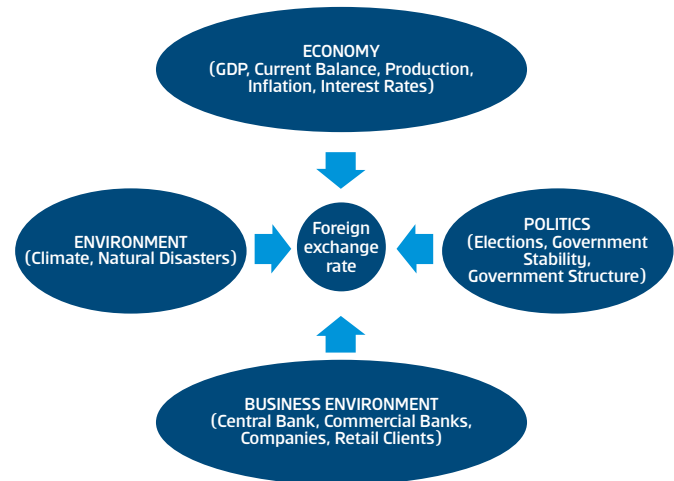
Based on ratio of Ask EUR/RSD (117.2) and Bid EUR/HUF (310.5), Ask HUF/RSD is generated, i.e. which is the amount of dinars necessary for buying one forint.

# Factor

There are several theories explaining the method of foreign exchange rate set-up. In general, foreign exchange rate is fixed based on FX offer and demand impacted by numerous factors from the national and international market.



Offer and demand values are impacted by numerous factors, whereby the following are specifically set out.



# Exchange rate analysis and forecast

When forecasting exchange rate movements, experts use various methodologies and tools which are, to a higher or lower extent, efficient in this complex venture.

Considering the variety and complexity of the factors impacting foreign exchange rate movement, it is not possible to provide an accurate forecast about future exchange rate value, therefore, this venture is often called a million dollar question.



*Experts dealing with exchange rate movement analysis use the combination of various types of analyses and tools in their work.*

Exchange rate movement analysis uses two types of analyses:

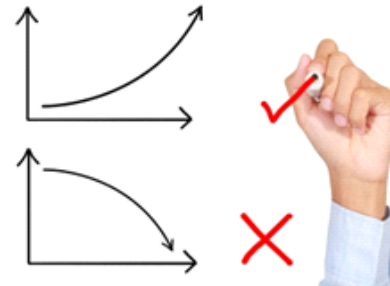
## FUNDAMENTAL



Fundamental is based on the analysis of financial indicators and macroeconomic indicators of an economy condition.

Price is forecast based on news and announcement of economic indicators.

## TECHNICAL



Technical analysis is based on the analysis of historical price movement aimed at forecasting future trend and focuses on chart analysis. Price is forecast based on historical price movement.

Most often, analysts combine both types of these analyses.



# Fundamental Analysis

**Fundamental analysis** is based on the analysis and assessment of economic indicators and daily economic and political events, both at local and at the global level.

**Inflation** - growing inflation may impact the Central Bank to increase interest rates aimed at decreasing inflation and stimulating economic growth. On the other hand, higher interest rates may attract foreign investors to invest in local currency which may result in higher demand for local currency as well as to its strengthening.

**Foreign trade and deficit** - export growth results in higher FX inflow (higher offer) transferred by exporters into local currency, impacting the local currency strengthening. On the other hand, deficit growth results in higher demand for FX aimed at financing growing import which results in local currency fall.

**Political instability** and natural disasters resulting in market disruptions.

**Industrial production** - growing production is the indicator of economic growth and sound economy resulting in export growth as well as in higher X inflow (higher offer) and local currency strengthening.

**Unemployment** - unemployment growth impacts consumption decrease and fall in economic activity, indirectly creating pressure on interest rate drop and local currency weakening.

**Key interest rate** and announcements by the Central Bank also have high impact to market and exchange rate movement.

**Daily statements** by Monetary and Fiscal Authorities officials may, to a high extent, impact exchange rate movement.

Technical analysis is often said to be an art of analysis of historical price movements and charts aimed at determining current and future movement.

Starting point of technical analysis is that prices move in trends and that history is repeated.



Technical analysis uses a wide range of ancillary tools, such as various technical indicators ensuring comprehensive market forecast.

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