IC Brief

Hedging Construction – Phase FX Exposure

Scenario Type: Project Finance – Construction Phase
Asset Class: Renewable Energy Infrastructure
Situation Type: Offshore construction capex with milestone-driven FX exposure
Primary Issue: FX hedges structured to fixed dates fail under construction timing uncertainty, creating liquidity stress and economic leakage despite "fully hedged" status

1. Decision Context

This scenario addresses a construction-phase project finance structure where a material portion of capex is denominated in foreign currency and funded through committed equity and debt.

The project is progressing broadly as planned. There is no credit impairment, no counterparty failure, and no breakdown in contractor performance.

At financial close, FX risk was addressed conventionally. Hedges were executed early to lock budget certainty and satisfy lender requirements. On paper, the project remains "fully hedged."

Despite this, FX-related liquidity pressure begins to emerge during construction.

The IC decision is not whether FX risk exists. It is whether the hedge structure remains **fit for purpose under construction timing uncertainty**.

2. Structural Setup at Close

At financial close, the structure was designed to provide certainty:

- Construction capex forecast with fixed milestone dates
- FX forwards executed against expected payment timing
- Hedges documented to satisfy lender and IC downside protection requirements
- FX risk treated as "fully hedged" once trades were in place

The structure optimised headline certainty under a single assumed timeline.

3. How the Risk Actually Manifests

The risk does not present as an FX shock. It presents as **timing drift**.

As construction schedules move:

- FX hedges mature before underlying payments occur
- Hedged currency must be rolled, re-established, or temporarily funded
- Break costs and re-hedging spreads accumulate
- Liquidity usage increases mechanically, independent of project quality

The project remains “hedged” on paper. Cashflows do not behave that way.

4. What Surfaces on Review

When reviewed properly, consistent signals emerge:

- FX exposure was hedged to dates, not to uncertainty
- Liquidity usage was underestimated at IC and lender review
- Hedge P&L volatility is driven by timing, not FX direction
- Governance strain emerges as repeated hedge amendments are required

This is not an execution failure. It is a **hedge design failure under uncertainty**.

5. Structural Assessment

This is not a “wrong hedge” problem.

It is a **constraint problem** created by forcing a deterministic hedge onto a probabilistic construction process.

Any response must preserve:

1. Embedded hedge value
2. Liquidity survivability through schedule variance
3. Documentation and lender defensibility

Blunt hedge unwind strategies typically destroy all three.

6. Illustrative Structuring Logic

The objective is not to eliminate FX risk. It is to **align hedge behaviour with construction reality**.

Effective approaches typically focus on:

- Separating economic FX protection from settlement timing
- Introducing contingent or flexible settlement mechanisms
- Reducing forced liquidity events during schedule slippage
- Preserving embedded hedge value while restoring control

Elegance is secondary. Survivability through delay is the objective.

7. Intended Outcomes

When addressed correctly:

- FX protection remains intact through construction variance

- Liquidity usage becomes bounded and explainable
- Hedge economics are preserved, not repeatedly reset
- IC and lender confidence improves
- Management regains decision agency under delay

Not perfection. Control.

8. IC Takeaway

This was not an FX market failure.

It was **liquidity and timing risk created by rigid hedge construction** applied to an uncertain build process.

Treating it as an execution issue destroys value. Treating it as a structural design problem restores control.

.9. Applicability

Most relevant where:

- Construction schedules are exposed to permitting, supply-chain, or grid delays
- FX hedges are tied to fixed settlement dates
- Liquidity buffers are finite or covenant-sensitive
- Projects are early-stage or first-of-kind

Less relevant where:

- Capex timing is short-dated and highly certain
- Physical currency inflows naturally offset exposure
- Liquidity is unconstrained
- FX exposure is intentionally retained

10. Engagement Path

Primary Offer: Hedge Rebuild™ – Construction-phase FX overlay design and execution support

A full structural narrative is available for readers who wish to review the underlying mechanics, trade-offs, and remediation sequencing in greater detail.

Disclaimer

Illustrative scenario for discussion purposes only. Not a transaction summary or client-specific case study.