Hedging With Currency Options

A U.S firm wishes to bid on a contract to export to a Swiss firm. The bid must be in Swiss frank (CHF). This bid is submitted in March and the contract will be awarded in June. The U.S firm has found out that it must be able to repatriate USD 1M to meet their profit goal.

Since the bid is to be submitted in foreign currency, the U.S firm is exposed to exchange rate fluctuation before knowing whether its bid has been successful.

Can this firm hedge its foreign currency risk using currency futures contract?

The U.S firm decides to use CHF put options to hedge its exposure. It can use different CHF put options to create different bids and protect against currency movement.

The firm obtains the following put option quotes:

Exercise Price	June Put Price
USD 0.60/CHF 1	USD 0.0021
USD 0.64/CHF 1	USD 0.0138

Prepare two bids for the U.S. firm using these options and analyze the revenue consequences if the bid is a) rejected and, b) accepted. Also, assume that the spot exchange rate in June turns out to be either USD 0.59/CHF 1 or USD 0.65/CHF 1.