Moving money globally

Forward Contracts

Shifts in exchange rates between the time you receive and pay an invoice is known as foreign exchange risk. Even small movements can make a big impact on your bottom line.

One of the ways we help our clients get more certainty over their FX is by using Forward Contracts.

When should I use a Forward Contract?

If you book a Forward Contract, it may mean losing out if currencies move in your favour because you're obligated to settle at the agreed rate.

A business should look to hedge when it has finalised an order to buy goods or services and it needs to mitigate the foreign exchange risk in buying those goods or services. But you need to be sure that the goods or services are definitely going to be delivered by the vendor.

To continue to take advantage of exchange rate movements, some customers use a Forward Contract for only part of their currency requirements as a way to partially hedge against volatility. You can then make Spot Transfers (one off transfers at the current rate) for the remainder of your exposure.

OFXperts can help you navigate rate swings in turbulent times so you can make informed decisions.

> **"A Forward Contract is an agreement that allows you to fix an exchange rate for a future transfer so that you know what the exchange rate will be at the time the transaction takes place."**

Alex, OFXpert since 2008

OFX Moving money globally

Exchange rate improves

Your Forward Contract rate

Exchange rate worsens

Forward Contracts FAQs

- **Do I need to pay a deposit?**
  You may be asked to pay a deposit at the time of booking a Forward Contract, or during the life of the Forward Contract (a "margin call"). No interest is paid on deposits.

- **Why do I need to pay a deposit?**
  The deposit is calculated as a percentage of the notional mark-to-market exposure of your Forward Contract, and held as security for your completion of the contract until the maturity date. Mark-market exposure is the difference between your contracted rate and the current rate.

- **What is a credit limit?**
  You may apply for a 'credit limit' which means your notional mark-to-market exposure may exceed the value of your Forward Contract up to the specified limit. If granted, we will only require a deposit to be posted once the specified limit is exceeded.

Benefits

The real benefit for companies who hedge in this way is that they have set currency costs for a period of time.

If today's rate is in your favor, you can lock it in for up to 12 months.

Pay overseas suppliers at the contracted rate without blowing your budget due to market moves.

Considerations

It may mean losing out if currencies move in your favour, but you won't have any costly surprises.

If your business buys goods or services on an ad-hoc basis, then you may need more flexibility in the payments you make.
So, locking yourself into a rate for a period of time could not be right for you.

You may need to pay a deposit.

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