Foreign Exchange Forwards and Swaps

Overview

Focusing on Forwards and Swaps, this session provides participants with an introduction into how corporate treasury can use FX derivatives to manage FX risk.

Key Contents

- FX Risk and the Derivatives Universe
  - A holistic view of FX exposure – the nature of risks and identifying main sources of risk
  - Explaining the consequences of transaction and translation risk
  - The nature of the derivatives market – a review of the choices, pros, cons and costs of the products that are available.
- FX forwards
  - Review of spot market conventions (assumed knowledge for the most part) before moving onto forward contracts.
  - Why use forwards? Some motivators for corporate to use forward contracts
  - Calculating a forward FX rate using time value of money concepts
  - Defining the terms premium and discount in relation to forward foreign exchange
  - Interpreting a variety of forward FX quotations (outright rates vs. forward points)
- Variants of FX forwards
  - Explaining the rationale for non-deliverable forwards (NDFs) and calculating the settlement amount in a typical transaction
  - Option-dated forwards – managing FX flows with uncertain timing (option dated forwards)
  - Determining the price of an option-dated forward contract given the term structure of forward contracts
- FX Swaps
  - Identify the main features and applications of FX swaps in corporate context
  - Explain how swaps are priced and the advantages
  - How to treat a swap as a 'rollover' and the cash flow implications