Corpay

Using Forward Contracts to Hedge Currency Risk

In today's global economy, managing risk by protecting your business against foreign currency fluctuations can make a huge difference to your bottom line. We can help your business minimize your exposure, working collaboratively with you to help you identify and manage risk.

We can work with you to help you implement a hedging strategy that best fits your market position. An optimized hedging strategy can help you protect your profit margins, while still remaining flexible enough for you to potentially participate in favorable market movements. One such tool that can help you accomplish those goals is the forward contract.

Potential benefits of forwards

- Smooth out short-term earnings uncertainty
- Protect your earnings per share by hedging your balance sheet
- Protect the value of assets and liabiliities denominated in foreign currencies
- Forecast profitability despite FX volatility
- Budget for your future costs of business

Forwards

The most common FX risk management tools, forward contracts, enable you to buy or sell one currency against another at an agreed rate, with a defined future date on which to settle.

Forward contracts can be booked on a single- or multiple-basis on our online trading platform, where you can also independently drawdown from your forwards.

While some initial margin may be required, a forward contract can help provide exchange rate certainty for the transaction without materially tying up cash flow.

Forward contracts do not allow market participation. You are committed to the purchase or sale of the currency at the settlement date.

Fixed forwards

Fixed, or closed, forwards tend to be used for buying or selling currencies when the delivery of the funds is date-sensitive. The transaction completes for the total amount of the contract on a specified date.

Open forwards

These forwards can also used for buying and selling currencies that are date-sensitive, but offer the flexibility of an "open" time period in which to settle. Open forward contracts also allow the flexibility to drawdown small portions of currency from the original amount contracted.

Window forwards

Similar to an open forward, the window forward allows the holder to settle at any time during a specified period (the window). The trade can be executed at a point during the window when the exchange rate seems more favourable, but it must be executed by the last date of the window.

Non-deliverable forwards

Non-Deliverable Forwards can be a great tool in helping to manage the FX risk of your foreign-owned assets on a consolidated balance sheet. NDFs are generally used to protect against exchange rate movements in less accessible markets, or where delivery of a foreign currency is not required. Instead, they are marked- to-market, minimizing the cash-flow burden, while maintaining the effectiveness of the hedge.

NDFs fix the exchange rate at a defined future date, but delivery of a foreign currency does not occur. Instead, the difference is settled between the contracted rate and the spot price at expiry in the base currency. With NDFs, you can:

- Effectively manage changes in your reporting multi-currency values due to FX rate fluctuations
- Smooth volatility in your consolidated balance sheet
- Easily marked to market
- Available in a wide variety of currencies, including exotics

Multi-forward contracts

You can book up to 25 open or closed forward contracts, for up to three different currency pairs, at the same time. As you're booking the forwards, you can select the draw-down date(s), currencies, and settlement accounts. This feature can be a powerful tool for your business, offering you autonomy and convenience in booking forwards to help protect your balance sheet and budget your cash flow accordingly. You can book multi-forwards through your dealer, or on the online platform.

Fast facts

- The 2022 CAD/USD range was 14%
- The 2022 GBP/USD range was 33%
- The 2022 EUR/USD range was 21%

Advantages of forwards

You can secure an exchange rate for future transaction, especially if you expect the market to move against you.

Disadvantages of forwards

After you book a forward, the market may move to your favour, and you must still settle the contract on the agreed rate, meaning you may have missed the opportunity to get a better rate.

Are forwards right for you?

Forwards might be applicable to you, if you're committed to making a payment in a foreign currency, or you expect an incoming influx of foreign money in the next few months.

Global businesses trust Corpay Cross-Border to power their international payments, execute plans to manage their currency risk and support their growth around the world. Utilizing our proprietary payment automation technology and currency risk mitigation solutions, we take pride in connecting companies large and small with the global financial markets and businesses all over the world.

Corpay by the numbers

One of the world's largest non-bank providers of FX and hedging solutions

24 offices in 10 countries around the world, with more than 780 employees

Serving more than 25,000 commercial and private clients

US $51.8 billion traded in FX in 2021; $81.8 billion total transactions

Payments to 200 countries in 145 currencies, with 3.2 million payments per year

100 correspondent banks and counterparty trading institutions on 6 continents

Corpay^

Corpay.com