

Bonus Forward - Currency Seller

A Bonus Forward allows you to sell foreign currency at an agreed “Protected Rate” of exchange, but with the potential to sell currency at an enhanced “Bonus Rate” if the market moves against you.

If at expiry, the market rate is at or below the Protected Rate, you are obliged to sell currency at the Protected Rate. However if the market is above the Protected Rate, you can receive a “Bonus Rate” unless the market trades at or above a pre-agreed “Limit Rate”.

Advantages

- Provides a pre-agreed level of protection on 100% of your exposure
- Allows you to benefit from an enhanced Bonus Rate up to a pre-agreed Limit Rate
- No premium is payable for the Bonus Forward

Disadvantages

- If the Limit Rate trades at any point during the lifetime of the contract you lose the opportunity to benefit from an enhanced Bonus Rate above the Protected Rate
- The Protected Rate will always be less favourable than the market forward rate at the time of entering into the contract
- Breakage costs may be applied should you wish to terminate the Bonus Forward early

How it works

You export goods to Europe and are due to receive EUR 5,000,000 (the “Protected Amount”) in nine months’ time.

The nine month forward rate for GBP/EUR is 1.1500. You would like some upside bonus benefit but are reluctant to pay a premium for this. You are prepared to accept a Protected Rate of 1.1700. We then calculate the Limit Rate to be 1.2500 (in this example). This guarantees that you are protected at 1.1700 with a potential Bonus Rate up to the Limit Rate of 1.2500.

Possible outcomes at expiry

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| Scenario 1 | GBP/EUR weakens and, on the expiry date, the market rate is 1.1200. This is below the Protected Rate. You are obliged to sell EUR 5,000,000 at the Protected Rate of 1.1700. |
| Scenario 2 | GBP/EUR strengthens and at expiry the market rate is 1.2300 having never traded at or above 1.2500 during the life of the contract. You have the right but are not obliged to sell EUR 5,000,000 at the Bonus Rate calculated as 1.1156. (EUR 5M @ 1.17 + [EUR 5M @ 1.17 – EUR 5M @ 1.23]). |
| Scenario 3 | GBGBP/EUR strengthens and, on the expiry date, the market rate is 1.2600, above the Limit Rate. You have the right but are not obliged to sell EUR 5,000,000 at the Protected Rate of 1.1700. |



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