PARTICIPATING FORWARDS

Importing products from overseas, in foreign currency, can have a big impact on cash flow and profitability.

Participating Forwards can help manage the risk. By protecting against unwanted currency moves. And helping you take advantage of favourable ones.

Here’s an example of how a Participating Forward helped a local Aussie business manage their foreign currency risk.

Marianna imports clothing to sell online. It’s a competitive market. When her business started out, Marianna would buy currency only when she needed it, using the spot rate.

Over time, she realised that the ups and downs of a volatile currency market was impacting her profit and cash flow.

Marianna first started using Forward Exchange Contracts to lock in exchange rates for specific amounts at certain dates in the future – which gave her more control over her cash flow.

She then decided to book a Participating Forward, so she could be more flexible when it came to changes in exchange rates.

This Participating Forward allowed her to protect 400 thousand US Dollars at a rate of 0.7000 for 6 months. By selecting 50% participation, she’d be able to buy the full 400 thousand US Dollars at 0.7000.

Giving her 100% protection if, in 6 months’ time, the Aussie dollar fell below 0.7000.

If the Aussie dollar rose above 0.7000 in 6 months, Marianna would be obliged to buy 50%, (being 200 thousand US Dollars) at 0.7000.

She then has the benefit of buying the remaining 200 thousand US Dollars at the higher spot rate.

That way, Marianna can easily take advantage of favourable moves without being fully obligated to purchase the remaining 200 thousand US Dollars. And if she decides not to proceed with buying the remaining 200 thousand US Dollars? It won’t cost her a thing.

It’s a useful strategy. One that’ll lower the risk of over-hedging if your international payment amount changes from what you first expected.

But please keep in mind that because of the flexibility a Participating Forward gives you, the protection level provided will always be less favourable than a Forward Exchange Contract.

Want to know if Participating Forwards can help your business?

Speak to your NAB FX Specialist or contact the NAB Markets Team on 1300 960 355.

NAB. More than money.

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