

Currency Futures

EFP's – win-win for all!!

Currency Futures -

Currency Futures are not really popular

- Some reasons:
 - Fix quantities
 - Fix delivery times
 - Commissions are due

Currency Futures

Advantages of trading currencies via your broker.

You can

- Trade exact amounts
- Define any delivery time you want
- deal with a personal contact

Currency Futures

Disadvantages of traditional currency trading:

- Separate credit line for each broker used
- Need to offset positions with proper counterparty
- Difficult position management
- Positions stay open until expired
- You pay a spread
- Your broker knows your position

Currency Futures

Advantage of trading currency futures:

- No spread
- Initial margin is usually smaller than bank margin
- No separate credit lines
- Daily valuation/margining / daily statements
- Immediate close-outs
- All positions centrally cleared – no separate credit lines necessary

Currency Futures

Disadvantages:

- Fixed contract sizes
- Fixed delivery times

Currency Futures – EFP's

You like the advantages of the cash currency markets – yet like the advantages of futures???

Combine them!!!

Currency Futures – EFP's

With an EFP you replace a regularly traded currency position with a futures position.

Currency Futures – EFP's

Necessary preconditions:

- Agreement between you/broker/clearing house
- Trading standard sizes and delivery times

Currency Futures – EFP's

- You trade with your regular broker, then „give-up“ the trade to the clearing house.
- You gain all the advantages of trading futures (daily margining, immediate close-outs, one position, one credit line only, one daily statement)
- Yet you keep the advantages of dealing with your trusted broker!
- You can trade with a bunch of brokers – but have only one position!!

Currency Futures & EFP's

Pre-Requisites for successful currency futures market:

- Well working cash market
- Support by the Central Bank
- Proper Documentation

Banks and Brokers will initially not support it, as it threatens to take away some of their business – but this is not the case; it only takes away some of their control over the clients dealings!

Currency Futures & EFP's

Clients for Currency Futures and EFP's:

Basically all!!!

Exception: Clients that are doing exact 1:1
currency hedges – but they are the exception!!