Forex Forward

A forex forward contract is an agreement that allows the buyer to lock in an exchange rate the day on which the agreement is signed for a transaction that will be completed later.

Forward contracts are one of the main methods used to hedge against exchange rate volatility, as they avoid the impact of currency fluctuation over the period covered by the contract.

A forex forward is a contract between two parties to exchange a certain amount of a currency for another currency at a fixed exchange rate on a fixed future date. Forex forwards are effective hedging vehicles that allow buyers to indicate the exact amount to be exchanged and the date on which to settle in the forward contract.

By locking into a forward contract to sell a currency, the seller sets a future exchange rate with no upfront cost. Forex forward settlement can either be on a cash or a delivery basis, provided that the option is mutually acceptable and has been specified beforehand in the contract.

Forex forwards are over-the-counter (OTC) instruments. Unlike standardized FOREX future, a FOREX forward can be tailored to a particular amount and delivery period. If an investor will receive a cashflow denominated in a foreign currency on some future date, that investor can lock in the current exchange rate by entering into an offsetting forex forward position that expires on the date of the cashflow.

The forex forward contracts are usually used by exporters and importers to hedge their foreign currency payments from exchange rate fluctuations. By using FOREX forward contracts, investors can protect costs on products and services purchased abroad and protect profit margins on products and services sold abroad by locking-in exchange rates as much as years in advance

Forex forwards can also be used to speculate and, by incurring a risk, attempt to profit from rising or falling exchange rates. A forex forward contract has credit risk. In the case that one of the parties is unable to fulfill its obligation, the other party will have to sign another contract with a third party, thus being exposed to market risk at that time. By locking-in the exchange rates at which the currency will be bought, the party forfeits the opportunity of profiting from a favorable exchange rate movement.

Reference:
https://finpricing.com/lib/EqRainbow.html