Forex futures

A forex future is a future contract to exchange one currency for another at a specified date in the future at an exchange rate that is fixed on the purchase date. By using a forex future contract, the parties are able to effectively lock-in the exchange rate for a future transaction. Speculation and hedging in currencies can be achieved primarily through future contracts.

A forex future is a future contract between two parties to exchange one currency for another at a fixed exchange rate on a fixed future date. Forex futures 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.

Because forex futures contracts are marked-to-market daily, investors can exit their obligation to buy or sell the currency prior to the contract's delivery date. Future market participants and speculators usually close out their positions before the date of settlement, so most contracts do not tend to last until the date of delivery. Forex futures contracts are legally binding and counterparties that are still holding the contracts on the expiration date must trade the currency pair at a specified price on the specified delivery date.

Investors use futures contracts to hedge against foreign exchange risk. 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 futures position that expires on the date of the cashflow. Forex futures can also be used to speculate and, by incurring a risk, attempt to profit from rising or falling exchange rates.

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

Future contracts are traded in an exchange and thus have no credit risk. 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. Additionally, unfavorable exchange rate movements may take away further opportunity of the party for profit.

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