Foreign exchange and derivatives Department

An exporter to the United States with annual sales of US $1 million

Possible strategy:

- 20% Spot
- 40% Forward contract at 1.1500 CAD/US
- 40% Zero-cost range forward at 1.1300 – 1.1700 CAD/US

Spot

You sell US $200,000 (20%) at the spot rate over the year, as your clients pay you.

Leaving part of your US dollar sales at the spot rate allows you to take advantage of a rise in the US dollar and provides a buffer in case the total amount of your US dollar sales falls short of your expectations.

Forward contract

You sell US $400,000 (40%) at the rate of 1.1500 negotiated in the forward contract regardless of the spot rate at the time of the conversion.

This way, you protect yourself against a drop in the US dollar and eliminate the uncertainty related to fluctuations in the currency.

Zero-cost range forward

You sell US $400,000 US (40%) within the negotiated range of 1.1300 – 1.1700. The rate you obtain depends on the spot rate at the time of the transaction:

- If the spot rate is lower than the 1.1300 floor, you obtain 1.1300;
- If the spot rate is within the 1.1300 – 1.1700 range, you obtain the spot rate in effect at the time of the conversion;
- If the spot rate is higher than the 1.1700 ceiling, you obtain 1.1700.

This way, you can take advantage of a rise of in the US dollar (up to 1.1700) and be protected by a safety net at 1.1300 if the US dollar drops in value.

This type of strategy enables you to obtain an average rate for your overall US dollar sales and is much more profitable than using one single hedging instrument. It allows you to protect your profit margins and eliminate speculation over your currency conversions.

All of these products and strategies are available for most currencies, whether you are an importer or exporter.

These rates are for information purposes only.

You need advice to effectively manage your foreign exchange risk?
Contact the Manager International Trade of your region.