An FX Outright (or forward exchange contract/FX forward) is an agreement to buy or sell an amount in a foreign currency at a predetermined rate on a specified date in the future. It is used to:

- hedge currency risk
- invest in anticipated changes in FX (forward exchange) rates

Opportunities offered by FX Outrights!

You can use FX Outrights to either hedge against currency fluctuations or invest in anticipated future fluctuations in exchange rates.

Hedging - example
One example for using hedging is if you need to pay in USD in 60 days, but want to know the exact payment amount in DKK now already.

By entering an FX Outright, you agree to:
- the rate at which you can buy USD in 60 days
- the payment amount not being impacted by any fluctuations in USD through to the date of payment

If the USD rate appreciates to a level higher than the agreed forward rate, you will make a profit, because you buy USD cheaper than the market rate. If the rate depreciates over this period, you will incur a loss, as you have locked in a higher rate than the prevailing market rate at the time of payment.

Whether you make profit or incur a loss on the FX contract itself, you have eliminated your overall currency risk, because you know the exact payment amount beforehand.

Settlement method
An FX Outright contract either involves:
- **physical delivery,** meaning the currency is actually purchased or sold at maturity
- **settled in cash,** meaning you only pay the differential between the agreed forward rate and the market rate at maturity

FX swaps
FX Outright are also integrated in FX swaps. An FX swap is an agreement involving the exchange of:
- an FX Outright against another FX Outright **or**
- a spot contract with an FX Outright

Both legs of an FX swap involve the same currency pair.

FX swaps are often used to:
- extend or shorten an existing FX contract
- adjust the nominal size of an Outright contract
- close a previous FX transaction by means of a counter-trade

1. Benefits and drawbacks!

Benefits	Drawbacks
You know the exchange rate beforehand.	FX contracts are traded OTC, meaning they do not have clear-cut market rates.
The contract is customisable and settled in smaller portions.	If the exchange rate moves against your position, you will incur a loss.
You can eliminate foreign-currency risk.	You are obliged to buy/sell at the predetermined rate.
	Termination requires an offsetting transaction.

2. Returns!

Your return depends on exchange rate fluctuations.
- When you buy an FX Outright: a profit, if the forward rate exceeds the predetermined rate.
- When you sell an FX Outright: a loss, if the rate at maturity is lower than the predetermined rate.

3. About risk!

Currency risk
- If the FX rate moves against your position, your loss may be substantial and, in principle, unlimited.

Liquidity risk
- If you want to close the contract prior to maturity, this happens at the prevailing market rate.
- Liquidity may be low during market turmoil, which increases the cost.

Counterparty risk
- You trade directly with the Bank and assume the risk of default.

Risk associated with FX swaps
- An FX swap may fluctuate to a negative market value.
- Greater uncertainty at long-term maturities.
- Major exchange-rate or interest-rate fluctuations may affect credit conditions and financial circumstances.

4. What you should know before trading!

When trading in FX Outrights and FX swaps, you must:
- Enter into a framework agreement that specifies risk management
- Please note that the Bank may require a margin or close the position in the event of large negative fluctuations

Taxation
Tax rules depend on whether you trade as a private individual, a business, a corporation or via a pension pot. Consult an accountant for a specific assessment.

Costs and expenses
Trading in FX Outrights entails:
- A premium or discount on the rate, dependent on whether you buy or sell
- The size of the premium depends on FX market liquidity and the Bank's margin

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