FUTURES HEDGE

$\boxed{SPOT \rightarrow FORWARD}$ $\rightarrow$ FORWARD HEDGE

SPOT $\rightarrow$ CURRENCY (ASSET) $\ominus$ 1.17 $\rightarrow$ 1.21

FUTURES $\rightarrow$ HEDGE $\oplus$ 118 $\rightarrow$ 121

— EX. 2) $\rightarrow$ $\underline{LONG}$ 50 FED

(A)   SPOT: 1.17 $\rightarrow$ 1.20 $-30,000$ USD

FUTURES: 118 $\rightarrow$ 121 $\left(\dfrac{121-118}{100}\right) \times 20,000 \times 50 = 30,000$ USD

$+ 30,000$ USD

(B)   SPOT: 1.17 $\rightarrow$ 1.10 $+70,000$ USD

FUTURES: 118 $\rightarrow$ 110.5 $\left(\dfrac{110.5-118}{100}\right) \times 20,000 \times 50 = -75,000$ USD

$-75,000$ USD

OPTION HEDGE

— EX. 3) NET SHORT POSITION $\rightarrow$ FUT. CASH OUTFLOW   (LCD)

$\rightarrow$ FIX PURCHASING PRICE

$\Rightarrow$ BUY CALL (RIGHT TO BUY @ SP)

1.3905 SP   1.4405 SPOT 1T -0.05 OTM ✗   ITM ✓

EER PAY.   SP + P = 1.4405   SPOT + 0.05   MAX. PURCHAS. PRICE   1.3905   SPOT 1T
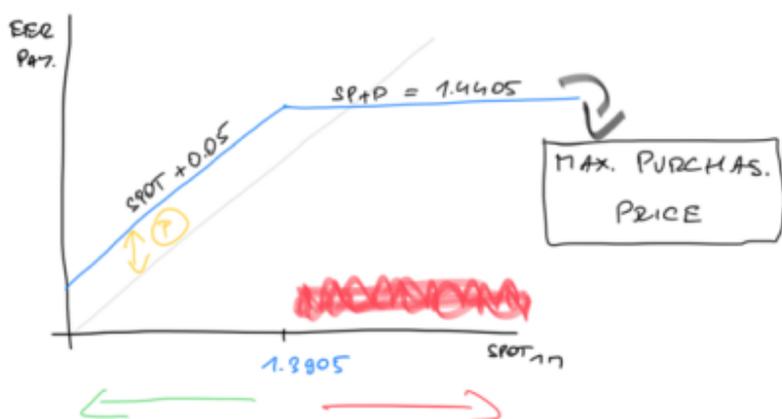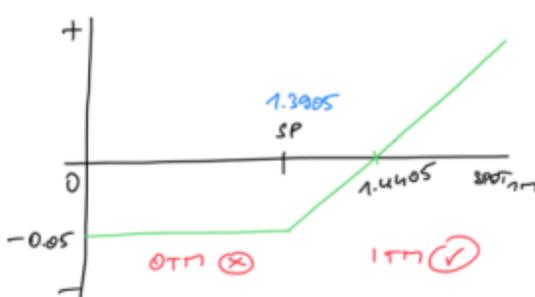
— RISK REVERSAL (ZERO COST)

BUY CALL $\rightarrow$ RIGHT TO BUY $-P$
SELL PUT $\rightarrow$ OBLIG. TO BUY $+P$
                                        $\overline{0}$

EER PAY.   SP$_{CALL}$ SP$_{PUT}$ PUT   CALL   SP$_{PUT}$ SP$_{CALL}$ SPOT 1T   ① ② ②
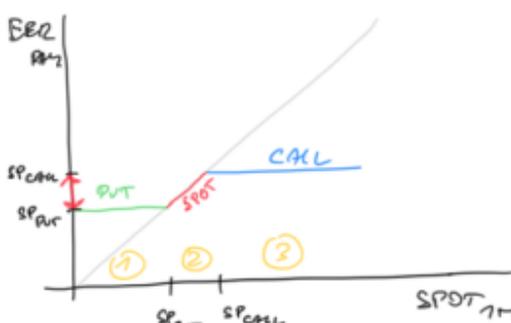
① BANK EXER. PUT
②
③ WE EXER. CALL

— EX. 4) NET LONG POSITION $\rightarrow$ FUTURE CASH INFLOW   (LCA)

$\rightarrow$ FIX SELLING PRICE

$\Rightarrow$ BUY PUT (RIGHT TO SELL @ SP)

28.390 SP   27.890   SPOT -0.5 ITM ✓   OTM ⊕

EER REC.   SP$-$P = 27.890   SPOT $-$ 0.5   MINIMUM SELLING PRICE   28.390   SPOT 1T
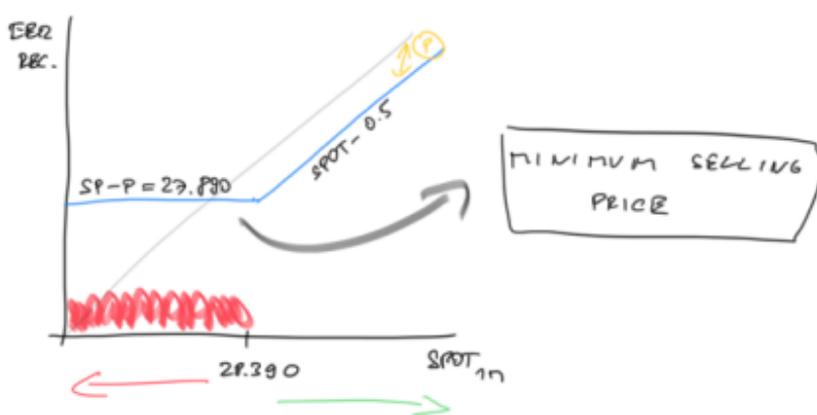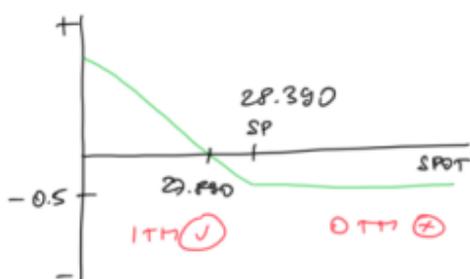
— RISK REVERSAL

BUY PUT $\rightarrow$ RIGHT TO SELL
SELL CALL $\rightarrow$ OBLIG. TO SELL

EER REC.   PUT   CALL   SP   SPOT 1T   ① ② ③
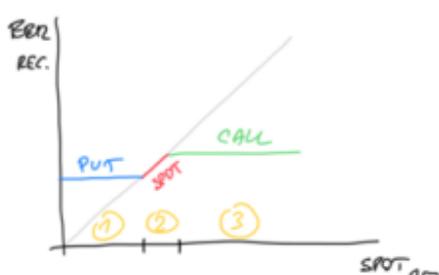
① WE EXERCISE PUT
②
③ BANK EXER. CALL