Currency futures

Basic terms:

- Currency futures – nature of the contract, the way they are traded using the example of FED (EURO/US DOLLAR FUTURES)
- Daily settlement of gains and losses, function of margins
- Role of clearing houses
- The use of futures contracts for hedging and speculation
- Futures basis

Exercise 1

Suppose that you sold 20 FED contracts (size of each equals 20,000 EUR) at the price of 115 USD per 100 EUR. You will keep your position open for 5 days and then you close it out with a reverse transaction. Calculate gains and losses for this trade if you know the following figures:

Day	**D_0**	**D_1**	**D_2**	**D_3**	**D_4**	**D_5**
Settlement Price	**115.00**	**116.36**	**115.21**	**114.70**	**114.95**	**115.26**
Gain/Loss	-					
Total	-					

Initial margin is 3% of the size of the position and spot exchange rate EUR/USD equals 1.1500. Maintenance margin equals 2/3 of the initial margin. During the whole transaction, do we have to additionally deposit any new funds to our account?

Exercise 2

Suppose that you expect a considerable increase in the value of the US dollar (against the euro) within the next week. What position will you take as a speculator in the futures market? What advantages (if any) does a speculation using futures contracts have (compared to forward contracts)?