Buying USD, Selling Euro

Your currency risk management options

The Scenario

Your business is importing goods from the US and is paying for those goods in US Dollar. You are looking to buy $100,000 each month for 12 months - $1,200,000 in total.

As you are concerned over adverse currency movements over the next 12 months, you are keen to protect your future cash flow and to get some security over the "worst case" protection/conversion rate you can expect.

There are a range of product options you could consider, read on below to find out more.

Please note:
Other mechanisms/products for managing foreign exchange exposures are available in addition to those presented in this document. Should you require further information, any other product (e.g. forward contract or a simple spot transaction) to manage your foreign exchange exposure please contact your dealer. We may be able to provide a bespoke solution dependent on your requirements and experience.

All Derivative products are governed by rules and requirements set out by European Union (Markets in Financial Instruments) Regulations 2017 and the Financial Conduct Authority. Bank of Ireland is obliged to assess in advance of any transaction whether it is appropriate for your needs. In order to comply with this requirement Bank of Ireland has to obtain information on the knowledge and experience relevant to the product from each customer in advance of any trade transacted.

Vanilla FX Option

A Vanilla FX Option gives you the right, but not the obligation to buy USD at a certain exchange (or "Strike") rate on a given date in the future. If the market FX rate at expiry is more favourable than the strike rate, you are free to transact in the market and let the contract expire.

EUR/USD Strike Rate	1.1100	1.1000	1.0900	1.0800	1.0700
Premium	€16,500	€14,000	€12,000	€10,500	€10,000

Figures based on buying $100,000 every month for 12 months ($1.2m in total). These are illustrative rates and premiums based on current spot rates as at w/c 31/07/2019. Contact us for your bespoke pricing.

Advantages	Disadvantages
• Provides protection against adverse currency movements • Known worst case FX level for future FX exposures • Potential to take advantage of favourable currency movements	• An upfront premium is payable • A small favourable move in the currency may not be sufficient to recoup the full premium paid

Forward Extra

Forward Extras provide a worst case or "strike" rate for your future transaction while allowing you to take advantage of favourable currency moves as long as a specified FX rate (barrier) has never traded.
At expiry, the purchaser has the right, but not the obligation to transact at the strike rate. However if the prevailing spot rate is between the protection/strike rate and barrier rate, you are free to transact at the prevailing market rate provided the barrier has not traded. If the barrier has traded, the purchaser is locked into a forward transaction at the strike rate.

A Forward Extra typically does not have an additional cost ("zero cost"), although a premium can be paid for additional protection if required.

EUR/USD Strike Rate	1.1100	1.1000	1.0900	1.0800	1.0700
Barrier Rate	1.1810	1.1950	1.2060	1.2140	1.2210

Figures based on buying $100,000 every month for 12 months ($1.2m in total). These are illustrative rates and premiums based on current spot rates as at w/c 31/07/2019. Contact us for your bespoke pricing.

Advantages	Disadvantages
• Provides protection against adverse currency movements • Known worst case FX level for future FX exposures • Potential to take advantage of favourable currency movements once the barrier has not traded • Typically structured as zero cost	• If the barrier is breached then the company is locked into a forward at the strike rate

Participating Forward

At each expiry, a Participating Forward provides a worst case or protection rate for your future transaction while allowing you to take advantage of favourable currency moves on a portion of the volume you wish to hedge. The remaining portion must be traded at the agreed protection rate.

A Participating Forward typically does not have an additional cost ("zero cost"), although a premium can be paid for additional protection if required.

EUR/USD Protection rate	1.1100	1.1000	1.0900	1.0800	1.0700
% participation	61%	72%	79%	84%	87%

Figures based on buying $100,000 every month for 12 months ($1.2m in total). These are illustrative rates and premiums based on current spot rates as at w/c 31/07/2019. Contact us for your bespoke pricing.

Advantages	Disadvantages
• Provides protection against adverse currency movements • Known worst case FX level for future FX exposures • Potential to take advantage of favourable currency movements on a portion of your exposure • Typically structured as zero cost	• If the FX rate moves favourably, you can only avail of the favourable move on a specified portion of your exposure

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FX Collar

FX Collars provide you with the best and worst case rates for a future transaction. The lower rate acts as your protection rate against adverse markets, while the upper rate is the best possible rate available under this structure. On expiry, if the prevailing spot rate is between the lower and upper rates, you have the right to trade at that prevailing rate.
FX Collars typically do not have an additional cost ("zero cost"), although a premium can be paid for additional protection if required.

EUR/USD Lower rate	1.1100	1.1000	1.0900	1.0800	1.0700
Upper rate	1.1350	1.1420	1.1475	1.1520	1.1560
Figures based on buying $100,000 every month for 12 months ($1.2m in total). These are illustrative rates and premiums based on current spot rates as at w/c 31/07/2019. Contact us for your bespoke pricing.					

Advantages	Disadvantages
• Provides protection against adverse currency movements • Known worst case FX level for future FX exposures • Potential to take advantage of favourable currency movements within a range • Typically structured as zero cost	• No ability to benefit from favourable currency movements beyond the specified range • You must transact if the currency moves beyond the lower rate of the range

Average Rate Option

An Average Rate Option gives you the right, but not the obligation to buy USD at a certain exchange (or "Strike") rate on a given date in the future. An Average Rate Option payout is calculated on the expiry date by comparing its fixed strike with an average value of EURUSD over the period. For example, the average value of EURUSD is calculated based on daily spot rates (or "fixings") in the relevant month i.e. for August (1^{st} – 30^{th}, 22 fixings).

EUR/USD Strike rate	1.1100	1.1000	1.0900	1.0800	1.0700
Premium	€16,000	€13,000	€11,500	€10,000	€9,000
Figures based on buying $100,000 every month for 12 months ($1.2m in total). These are illustrative rates and premiums based on current spot rates as at w/c 31/07/2019. Contact us for your bespoke pricing.					

Advantages	Disadvantages
• Provides protection against adverse currency movements • Known worst case FX level for future FX exposures • Potential to take advantage of favourable currency movements • Typically cheaper than a vanilla FX option	• An upfront premium is payable • A small favourable move in the currency may not be sufficient to recoup the full premium paid

For more information, contact your usual Global Markets dealer or request pricing here