Currency futures FAQ

Q: What is a currency future?

A: Currency futures are standardised contracts that are traded on the JSE's Currency Derivatives Trading Platform.

Traders choose to either buy (long) or sell (short) a specific currency pair. For example, if you think the US Dollar is going to strengthen relative to the South African Rand, you would go long/buy the USDZAR contract. By doing this you are automatically buying Dollars and selling the Rand at the same time. Alternatively, you might think that the Euro is overvalued relative to the South African Rand (and therefore should weaken) in which case you would short/sell the EURZAR contract. By doing this you are automatically selling Euros and buying the Rand at the same time.

Q: What are the currencies traded?

A: Dollar/Rand, Euro/Rand, Pound/Rand, Aussie Dollar/Rand, Yen/Rand, Canadian Dollar/Rand, Swiss Franc/Rand. One can also trade synthetic crosses for example, EUR/USD, GBP/USD and GBP/EUR. Synthetic trades are becoming increasingly popular amongst investors as the margin requirements are considerably less than Rand based crosses.

Q: How big is a currency contract?

A: A contract exposes you to 1 000 units of the foreign underlying currency, for example, $1 000.

Q: How do I profit from currency futures?

A: Movements in the currency exchange rate affect the profit or loss. A one cent movement is equal to a R10 profit or loss.

Q: What do I do with the foreign currency after I close a contract?

A: You will not receive the foreign currency. All cash is settled in Rand at the close of a contract.

Q: Currency futures are geared. What does this mean for me as a trader?

A: In order to open the futures position an investor must deposit the necessary initial margin with the JSE. Initial margin is two times the JSE margin. 50% of this amount will go to initial margin and the other 50% will go to retained margin, used as a buffer for MTM (marked-to-market) movements.

Q: What do Marked-to-Market, variation margin and leverage mean?

A: Marked-to-Market (MTM) - The daily revaluation of each open position by the exchange at the close of each business day. Variation margin - the daily process through which the unrealised profits and losses are processed into the client's cash account by the exchange through the MTM process. Leverage (or "gearing") simply means to trade with margin. The value of currencies transactions engaged is higher than the amount a trader or investor has on margin.

Q: What is the difference between currency futures trading and spot forex trading?

A: The difference between the spot price and the futures prices is as a result of "the forward points". The forward points are a function of the interest rate differential between the two domestic countries. The forward points should offset, or neutralise the interest rate differential between the two currencies and prevent any risk-free arbitrage opportunities.

Q: How do I calculate forward points?

A: You need the following information:

1. The deal date
2. The maturity (or settlement) date
3. The overnight interest rates of the applicable countries (currencies)

$$Points = \left[\frac{1 + \left\{Terms\ Currency\ Interest\ Rate\ x\ \left(\frac{Forward\ Days}{Interst\ Rate\ Year}\right)\right\}}{1 + \left\{Base\ Currency\ Interest\ Rate\ x\ \left(\frac{Forward\ Days}{Interest\ Rate\ Year}\right)\right\}}\right]$$

Q: What are the costs?

A: Currency futures traded on SAFEX (South African Futures Exchange): Brokerage at R17.54 (excl. VAT) per contract. Interest payable on the futures positions will be determined daily by the market maker in relation to the ruling SAFEX rates. The trading costs are halved on day trades (i.e. only one leg will be paid)

Interest is paid on cash balances in the futures account at the JSE Trustees rate.