

Example 3 (spot against forward FX)

Tuesday: Let us assume the market is quoting Spot EUR/USD: **1.32 50–55** and the Tom/next EUR/USD swap price as: $\frac{1}{2} - 1$, **(0.00005 - 0.0001)**.

This immediately tells us that the base currency is at a Premium (**EUR Premium**) against USD Tom/Next and therefore the EUR will have a lower rate of interest than USD Tom/Next.

Now let's assume that last night (**Monday**) the forward EUR/USD dealer went home **LONG EUR 5 million Spot against 6 months forward** against USD at the swap price of **95 points his favour** (bought and sold EUR / sold and bought USD priced from value Wednesday). Coming in this morning (**Tuesday**) the spot date will be Thursday this week. The forward EUR/USD dealer will consider his spot against forward position at an adjusted points value. This will be based on the benefit or cost of the Tom/Next swap in rolling forward his position. Being **Long EUR** Cash he will have to Sell and Buy EUR / Buy and Sell USD Tom/Next at the market maker's Offer (1 point Premium).

With EUR interest rates lower than USD this means that his long spot EUR (Cash) against forward position will cost him points (**EUR Premium** Tom/Next). The dealer will therefore adjust his carry forward average (break-even) rate by the points he will have to pay Tom/next - rolling forward the cash position from yesterday's spot date to today's spot date for swaps dealt.

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| 6 months swap position as at last night (Spot against forward) | |
| Long EUR 5 million @: | 0.0095 <i>points his favour</i> |
| <i>minus Cost of Tom/next (1 point against him):</i> | <u>0.0001</u> |
| Tuesday a.m. adjusted points: | 0.0094 <i>points his favour</i> |

The adjustment is *negative* i.e. reducing the '*points his favour*' carry forward price of the position by the 1 point (0.0001) cost **paid** Tom/next.

Example 4 (spot against forward FX)

Now let us assume that short date EUR interest rates have risen and are now quoted higher than USD. The short date swaps have therefore moved through par and the Tom/Next is now quoted $1 \frac{1}{2} - 1$. **(0.00015 - 0.0001)**.

This immediately tells us that the base currency is at a Discount (**EUR Discount**) against USD Tom/Next and therefore the EUR will have a higher rate of interest than USD Tom/Next.

Now rather than a long cash position. let's assume that last night (**Monday**) the forward EUR/USD dealer went home **SHORT EUR 2 million Spot against 3 months forward** against USD at the swap price of **48 points against him** (Sold and Bought EUR / Bought and Sold USD priced from value Wednesday). Coming in this morning (**Tuesday**) the spot date will be Thursday this week. The forward EUR/USD dealer will consider his spot against forward position at an adjusted points value. This will be based on the benefit or cost of the Tom/Next swap in rolling forward his position.

With EUR interest rates higher than USD this means that his short spot (Cash) against forward EUR position can be rolled forward at a points benefit (**EUR Discount** Tom/Next). The dealer will therefore adjust his carry forward average (break-even) rate by the points he will have to pay Tom/next - rolling forward the cash position from yesterday's spot date to today's spot date for swaps dealt.

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|---|--|
| 3 months swap position as at last night (Spot against forward) | |
| Short EUR 2 million @: | 0.0048 <i>points against him</i> |
| <i>plus Cost of Tom/next (1 1/2 point against him):</i> | <u>0.00015</u> |
| Tuesday a.m. adjusted points: | 0.00495 <i>points against him</i> |

The adjustment is *negative* i.e. increasing the carry forward '*points against him*' price of the position by the $1 \frac{1}{2}$ points (0.00015) cost **paid** Tom/next.