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THE IMPORTANCE OF THE CONCEPT OF FUTURE PRICES FOR CURRENCIES

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Abstract
This article describes the concept of "Forward Rate" used in foreign exchange markets. This understanding helps to understand how important it is in predicting the future prices of the currency and planning financial activities. The article shows how the forward rate works, how it can be used, through examples.

Keywords: Forward rate, currencies, future prices, financial activity, investment, risks, selling, buying, forecasting, planning, transactions, strategies.

Introduction

Concept of Forward Course

The forward rate is important in investment strategies, financial activity and international trade transactions and is used in several areas. This understanding influences future currency fluctuations and helps manage currency risks.

For example, let's say a company has a contract in US dollars (USD). The same company wants to know the total contract price due to the USD price for a future one-month period. For this, there is a forward rate (future price for USD) obligation. This rate is published by banks and financial institutions and tables are created for users to know.

Date	USD/UZS (past)	USD/UZS (future)
03/01/2024	11,300	11,400
03/02/2024	11,350	11,420
03/03/2024	11,380	11,410

An understanding of currency forward contracts

Currency forward contracts are primarily used to hedge against exchange rate risk. It protects the buyer or seller from adverse exchange rate events that may occur at the time the sales contract is concluded and at the time the actual trade is executed. However, parties entering into a foreign exchange forward contract forego the potential benefit of exchange rate movements that may occur in their favor between the time the contract is entered into and the closing of the transaction.

Exchange rate is the price of one country's currency expressed in another country's currency. There are types of exchange rates that are fixed and changeable (depending on the demand or supply for one or another currency in the foreign exchange market). The exchange rate is determined based on the purchasing power of the country's currency, as well as interaction with

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international means of payment (for example, SDR, euro) and other factors (comparison of the price of goods in the national currency). With the change in their purchasing power (under the influence of the inflation rate, balance of payments situation, different interest rates in different countries, the level of trust in this currency in the world currency market, as well as other political reasons), the exchange rate also changes. The official exchange rate set by the central bank of issue should be distinguished from the free exchange rate set by the government or created in the foreign exchange market. In addition, the exchange rate of the national monetary unit can be determined according to the officially established relations with other state currencies or international and regional currencies ("floating", "sliding" rate) (in the European Monetary Union, exchange rate fluctuations are limited to + 2.25%).

In the practice of currency trading, the currency is sold at a higher rate (the seller's rate), and when bought, a lower rate (the buyer's rate) is used. The bank's income from currency trading comes from the difference between the two levels of the exchange rate. The official increase (revaluation) of the exchange rate makes the country interested in repatriating capital, facilitates imports, because it becomes possible to purchase foreign currency at a lower price. Official reduction of the exchange rate (devaluation) occurs in connection with a sharp deterioration of the country's balance of trade and payments, depletion of foreign exchange reserves. The foreign exchange rate is determined by a special office at the stock exchange and published in special bulletins is called a currency quote. Such bulletin information is also published in the press. The Central Bank of Uzbekistan periodically publishes in the press the exchange rates of foreign currencies against the soum, taking into account the dynamics of inflation and the money supply for accounting and customs payments. As of August 18, 2022, the official exchange rate of 1 US dollar against the soum was 10,945 soums and 32 tinyas.'

Price is one of the important structural elements of the market mechanism. Through its tasks, it creates conditions for the formation and effective operation of a stable economy, ensuring market balance, distribution of national income across various branches and sectors of the economy, economic entities, and social protection of the population. It also has a significant impact on the creation of a healthy competitive environment by encouraging manufacturers.

Price, price - the form of the value of goods in money; an economic lever operating in a market economy. In some views in the history of economic thought, the price was interpreted based on the labor theory of value, and it was regarded as the expression of value in money. Early 21st century theories explain price based on the quantity theory of money, recognizing that price is influenced by costs, commodity profitability, and competition. The price is determined by the value, but it can be higher or lower than a certain value, depending on the supply and demand of the particular commodity in the market.

Although forward currency contracts are a type of futures contract, they differ from standard futures contracts in that they are privately entered into between two participants, are tailored to the requirements of the parties to a particular transaction, and are not traded on any exchange. Since currency forwards are not exchange traded instruments, they do not require any margin deposit.

Since currency forward contracts are private contracts between the parties, they can be tailored precisely to the respective needs of the parties with respect to the amount of money, the agreed

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rate and the period covered by the contract. The exchange rate specified in the currency forward contract is usually determined in relation to the current interest rates of the two currencies participating in the transaction in their respective countries.

When to use Forward contracts

Currency forward contracts are generally used in situations where exchange rates may affect the price of goods sold.

A common example is when an importer buys goods from a foreign exporter and the two countries have different currencies. They can also be used when an individual or company is planning to buy property in a foreign country or to make maintenance payments related to such property after the purchase.

Foreign exchange forward contracts can also be entered into between an individual and a financial institution for purposes such as paying for a future foreign vacation or financing study abroad.

Practical examples

Currency forward contracts are often used to sell goods between a buyer in one country and a seller in another country. The contract specifies the amount of money paid by the buyer and received by the seller. Thus, both parties can have firm information about the price/price of the transaction.

If a transaction that could be affected by changes in exchange rates takes place at a future date, fixing the exchange rate allows both parties to budget and plan for other business activities without worrying that a future transaction will leave them in a different financial situation. situation than they expected.

For example, suppose that Company A in the United States wants to enter into a future contract to purchase machine parts from Company B in France. Therefore, changes in the exchange rate between the US dollar and the euro can affect the actual purchase price - up or down.

An exporter in France and an importer in the US agree on an exchange rate of 1.30 US dollars per 1 euro, which governs the transaction between them for six months from the date of the foreign exchange forward contract. The current exchange rate at the time of settlement is 1.28 US dollars per 1 euro. If, in the interim and on the actual trade date, the market rate is 1.33 US dollars per 1 euro, then the buyer will have profited by locking in the rate of 1.3. On the other hand, if the exchange rate at that time is 1.22 US dollars per 1 euro, the seller will profit from the currency forward contract. However, both parties benefited from locking in the purchase price so that the seller knows his price in his currency and the buyer knows exactly how much he will receive in his currency.

Summary

A foreign exchange forward is a written contract between two parties that specifies a fixed foreign exchange rate for a specified transaction for a specified date in the future. Currency forward contracts are used to hedge currency risk. They are mainly produced between importers and exporters located in different countries.

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