Andreas Krause

Forwards and futures

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Forwards and futures



A Forward is a contract in which the buyer agrees to purchase the underlying asset at a future date

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Forwards and futures

At maturity of the forward, the profits are the value of the underlying asset

 $\blacktriangleright \Pi_T = S_T$

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At maturity of the forward, the profits are the value of the underlying asset, less the strike price

 $\blacktriangleright \Pi_T = S_T - K$

At maturity of the forward, the profits are the value of the underlying asset, less the strike price, and the price paid for the forward

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- If buying the underlying asset directly, the profits are the value of the underlying asset, plus any returns on that asset
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Î_T = S_T + r_STS_t − (1 + r_LT) S_t

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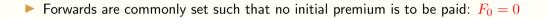
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Forward rate

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Forwards and futures



Forwards are commonly set such that no initial premium is to be paid: $F_0 = 0$ $\Rightarrow K = S_0 + (r_L - r_S) TS_0$

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Types of forwards

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Forwards and futures



Financing rate r_L

Yield on underlying asset r_S

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Forwards and futures

	Financing rate r_L	Yield on underlying asset r_S
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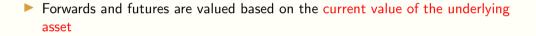
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