International finance

Finance

In a case where the interest rates are constant, the forward rates will increase hence impacting the market players to move forward. This is because, in such a situation, there will be a greater demand and less supply thus forward dollars that are slightly cheaper (Sercu740).

Political decisions like including other currencies in the domestic market can also result in the market pressure to be borne. A good example is the risk to have the market change in EUR/USD rates while having the JPY/EUR rates remain unchanged. Such a decision will lead to some of the market pressure to be diverted to pound and yen spots markets as well as to the rest of the pound and yen forward markets (Sercu750). By spreading pressure, the initial spots sales impacts are dampened compared to the situation where the market is isolated.

The market is considered as being a system that is self-centered in which orders are placed for exogenous purposes and where the makers in the markets are guided by the cash and order flow. The speculator's role is to have domestic prices linked to the entire world. The forward price can be considered as being a risk future value that was expected and has been adjusted. In situations where the forward dollar values go down, with investors seeing no good reason for such depreciation, they will end up buying forward hence limiting the expected future value and forward value deviation. The expected deviation existing between expected future spot rates and forward prices results in domestic trades to be conducted in the most commercial means hence spreading the domestic spreading shocks to other markets that are related (Sercu759).