

4.2 SIMILARITIES OF FORWARDS AND FUTURES CONTRACT



The two derivatives, forwards and futures are similar in the following ways:

1

WIDESPREAD MARKET

Both futures and forwards are commonly used across different economies and different types of markets and are well understood and used globally for different purposes.

2

EXTENSIVE RANGE OF UNDERLYING ASSET

Both forwards and futures have an extensive range of underlying assets on which they can be formed. These include :





3

OBLIGATION TO HONOUR THE CONTRACT.

Forward as well as futures contracts are both legally binding agreements in the eyes of law. The parties involved in the agreement, the buyer (Long Position holder) and the seller (Short Position holder), are equally obligated to honour the contract as agreed.

4

LOCK AT AN AGREEABLE PRICE

Both forwards and futures contracts have the feature to lock an agreeable price between the parties today on which the transaction would take place on the future date.



5

SUITABLE FOR HEDGERS

Forwards and futures are effective financial instruments for reducing one's exposure to price fluctuations in the near future. They both are suitable for hedging purpose.