

Pre-Spot Transaction

The Situation

Your customer in London has informed you that they have remitted GBP50,000 into your bank's correspondent UK bank for further credit to yourselves. The value date applied to the funds is next day. You want to take delivery USD into your bank account for value tomorrow.

The Product: Pre-Spot Trade

A pre-spot trade is a foreign exchange transaction booked with a value date prior to the current spot date. For most currencies pre-spot deals can either be same day or value tomorrow, but in the case of USD/CAD pre-spot is only same day (as spot for USD/CAD is next day).

The Solution

A pre-spot trade, like a forward outright, will be a calculation of the Spot rate adjusted to reflect the interest rate differential between the two currencies being exchanged (these are referred to as 'pre-spot points'). In the 'situation' above the Spot Rate is \$1.4400, the 'pre-spot' points are +.0001, therefore the pre-spot rate will be \$1.4401. Once the trade is agreed, tomorrow you will sell the bank GBP50,000 and receive USD72,005 into your specified USD account.

The Benefits and Disadvantages

Simple Product

Known Cost

Agreed Value Date