Hedging solution for non-convertible currencies

What you should know about non-deliverable forwards
An NDF is an efficient way to hedge a foreign exchange (FX) exposure against non-convertible currencies such as the Argentinian peso, Taiwanese dollar, Korean won, etc. It is conceptually similar to a forward transaction with the difference that there is no settlement in the non-convertible currency. Instead, the whole transaction is settled in the convertible currency such as USD, EUR, or CHF.

As for a forward transaction, an NDF is fixed for an agreed amount (of the non-convertible currency), on a specific due date, and at a defined forward rate. At maturity, the forward rate is compared against the reference rate of that day. This might be the daily rate fixed by the central bank in question, or an average rate published by several banks. The difference between the pre-agreed forward rate and the fixing rate is settled in the convertible currency on your account on the due date. Therefore, you will either pay or receive the difference.

Possible risk
Depending on the fixing rate at the expiry of the NDF, a loss may occur in the convertible currency.

What currencies are suitable for NDFs?
NDFs may be concluded in the currencies of the following countries (list not necessarily exhaustive):

- Argentina (ARS)
- Brazil (BRL)
- Chile (CLP)
- China (CNY)
- Colombia (COP)
- Egypt (EGP)
- Indonesia (IDR)
- India (INR)
- Kazakhstan (KZT)
- Kenya (KES)
- Korea (South) (KRW)
- Malaysia (MYR)
- Nigeria (NGN)
- Peru (PEN)
- Philippines (PHP)
- Taiwan (TWD)
- Vietnam (VND)
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