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[Sec - 1]

Q2 Explain the Forward Market

A forward market is an over the counter marketplace that sets the price of financial instrument or asset for future delivery. Forward markets are used for trading a range of instrument, but the term is primarily used with reference to the foreign exchange market. It can also apply to markets for securities and interest rates as well as commodities.

The forward market is the informal over the counter financial market by which contracts for future delivery are entered into. Standardized forwards are called future contracts and are traded on a future exchange.

It should not be confused with the future markets.

- Future contracts are traded on an exchange whereas a forward contract is traded over the counter.

- The future market is highly customized.

- Through the forward market is not exchange trade, the chance of parties defaulting are very low.