Description of forex (Rolling Spot FX) trading and margin trading related risks

Version: 03012018

Amenda Markets AS IBS | www.amendafx.com
Elizabetes 63-24, Riga LV-1050, Latvia
Phone: +371 66777830 | Fax: +371 6788 9990 | Email: support@amendafx.com

General terms

The professionals of Amenda Markets AS IBS (hereinafter Amenda Markets) have compiled this description to introduce the readers to the most common risks related to Rolling Spot FX trading and margin trading. We recommend you getting familiar with the description, as well as to assess the risks.
An investor's main objective is to seek a positive return on his/ her investment. However, any investment is risky. Therefore, an investment may fail to ensure the expected return, or even be loss-making. Normally, there exists a direct relation between the amount of the expected return and the scope of the risk, i.e. the higher the return on investment is expected, the higher the risk of incurring losses. Different financial instruments carry different risks. The client is personally responsible for a decision to invest in one or another financial instrument. The client is obliged to monitor the status of his investments regularly. The client should use all the information accessible to him in order to monitor price changes and to follow the value of his investments, including data provided by the trading system.

General information about Rolling Spot FX trading and related risks

Use: Rolling FX Spot is a contract where the profit it to be secured or loss avoided by reference to fluctuations in an underlying currency pair, e.g. the Euro (EUR) against the U.S. Dollar (USD), referred to as EURUSD, for immediate delivery. The objective of trading Rolling FX Spot is to gain exposure to fluctuations related to the underlying currency pair without owning it. Your return depends on the size of the performance (or movement) of the underlying currency pair and the size of your position. This product is entered into for the purpose of speculation or hedging and is commonly traded on margin.
Structure: a spot contract is a binding obligation to buy or sell a certain amount of foreign currency at a price which is the "spot exchange rate" or the current exchange rate. The trade date is the day on which a spot contract is executed.
Pricing: pricing of foreign exchange or the spot exchange rate is determined by the demand and supply of the currency in the market. The demand and supply of a currency can be affected by a country's current rate of inflation and expected future inflation rates, the country's balance of payments, the monetary and fiscal policies of the country's government, various economic indicators which create expectations about the country's economic health, differences between foreign and domestic interest rates and central bank interventions.
A foreign exchange rate quotation consists of two currencies: the 'base' (fixed) currency and the 'term' (variable) currency. A quotation shows how many units of the terms currency will equal 1 unit of the base currency.

The most significant risks related to Rolling Spot FX trading that the investor should take into account:

Currency risk - the risk that an investor may incur losses if investments in financial instruments are denominated in foreign currencies. The client should be aware that the value of investments may fall as a result of unfavourable fluctuations of exchange rates. You may receive payments in a different currency than your account base currency, so the final return you will get depends on the exchange rate between the two currencies.

Capital risk – the risk that the investor will lose all the invested funds or any part thereof. That risk is closely related to the specific characteristics of the financial instrument market (liquidity, supply and demand ratio, etc.).

Inflation risk – the risk that the purchasing power of money held at the trading account will decline due to the increase of prices for consumer goods and services, i.e., less purchases could be made for a set amount of money.

Selection risk – even in case of especially favourable conditions in the financial instrument market, as well as hopeful and positive characteristics of investment objects, there is still a possibility than an investment made in the selected financial instrument will not provide the expected results.

Credit risk - the risk that may emerge in case of decline of the financial situation of the issuer, investor or credit institution that has accepted the deposit, thus facilitating failure to perform the obligations.

Price fluctuation risk – the risk that there will be a difference between the purchase and the sales prices, creating a situation, when the financial instruments are sold at a lower price (or are purchased at a higher price), thus decreasing the return on investments.

Market risk – the risk related to the general factors having influence on the financial instrument market, e.g., the economic situation in the country, instability of the national currency rate, changes in the base interest rates, etc.

Investment moment selection risk – the risk of selecting an unfavourable moment for the purchase or sale of the financial instruments (i.e., when the financial instrument market prices are unstable, purchasing at a higher price than it could be done, selling at a lower price than it could be sold).

Systemic risk – the possibility that the insolvency of the financial instrument market participant or the investor will have an unfavourable influence on the majority of market participants or investors.

Legal regulation risk – the risk to incur loss due to unexpected changes in the regulatory enactments. Prior to making investments it is important to get familiar with the legal regulation of the market, where you have planned to make investments, especially if you make investments in the market of such a country that you have little information on.

Risks related to trading system - nowadays, all trading systems are computerized to greater or lesser extent, i.e. the placement, registration, and execution of orders, as well as other necessary operations, is carried out electronically. As with other electronic systems, their operation might be temporarily interrupted owing to causes beyond the control of Amenda Markets. The execution of orders might be temporarily interrupted or they might not be executed to the fullest extent, or an investor may fail to receive essential information on a real time basis.

Risk of unlimited loss

Your potential losses on (long or short) positions may exceed the amounts you have paid (as margin) or the amounts we hold on for you.

Counterparty Risk

Amenda Markets is your counterparty, therefore there is the risk that Amenda Markets might not meet its obligations to you. Amenda Markets mitigates Clients' counterparty risk through its margin policy and risk management procedures.

Non-regulated market risk

Rolling Spot FX contracts are OTC derivatives and are not covered by the rules for exchange-traded contracts. OTC contracts, by their nature are not necessarily liquid investments in themselves. If you want to exit the positions, you rely on Amenda Markets ability to relay order for close out at the time you wish, which might not match the liquidity or market price of the underlying instruments.

Slippage and gapping risk

It may become difficult or impossible for you to close out a position. This can, for example, happen when there is a significant change in FX Spot value over a short period. Amenda Markets counterparty ability to close out a position depends on the market for the underlying currency pairs. Stop-loss orders may not always be filled and, even if placed, may not limit your losses to the amount specified in the order, since they are not guarantees that there will be no loss.

Constraint: forex spot exchange rate movements are highly unpredictable, even during a single trading day. Relying on the spot market for future foreign exchange can be risky as it exposes cash flows to the risk of unfavorable changes in foreign currency values.

Margin trading or leveraged trading allows an investor to engage in trading in financial instruments without being in possession of the total sum of money. It is sufficient that the investor provide a relatively small security, this being no less than the required margin (margin requirement).

Margin trading is associated both with the possibility of earning enormous profits and suffering significant losses in comparison with capital investments. Margin trading carries a high degree of risk both for buyers and sellers, irrespective of the underlying asset class. If market prices move in a direction opposite to the investor's positions, the investor may not only lose the original investment but also incur a substantial amount of debt. Margin trading requires a close and regular monitoring of the market and the use of margin. If the value of the deal changes the investor may receive a margin call. The investor's failure to meet the margin call will cause the deal to be cancelled and the incurrence of losses respectively.

Example of leverage effect

If a Rolling Spot FX position of 50 000 EUR is opened with a deposit (margin) of 1 000 EUR, then a positive price move of 2.5% would bring a profit of 1 250 EUR. In opposite case if a sudden negative price move of 2.5% occurs, that would bring a loss of 1 000 EUR plus a client would incur a debt of 250 EUR.