European exporters add flexibility to FX hedges

Corporates with USD exposures have been reducing hedging tenors and adding optionality

By Cole Lipsky
04 Nov 2025

European corporates have been shortening the tenor of their foreign exchange forwards hedges so they can react more quickly to market conditions should spot and hedging costs improve, according to dealers.

Banks say corporates that typically might have hedged at the five-year tenor are now looking at monthly rolling strategies, for example.

“Our volumes pick up at the end of the month, just because corporate clients usually like to come closer to the end of the month to roll their hedges and put on new hedges,” says Flavio Figueiredo, global head of FX at Citi.

Bhavna Sahay, managing director and head of UK corporate FX sales at Deutsche Bank, says clients such as those in industrial and manufacturing sectors have been very topical amid tariff and market booms. Traditionally, these clients have large hedge books with longer tenors.

"Now, they're all exploring ways to make their hedging approach more flexible and more dynamic compared to how they would have done it. You've seen some clients who would hedge much longer tenors up to 10 years that have pulled that back to shorter tenors," she notes.

One of the main factors is that many companies with large US dollar exposures don't want to lock in current weak US dollar levels longer term. Euro/US dollar spot has appreciated from 1.04 at the start of the year to 1.16 as of October 31.

Sometimes, what we see when there's volatility is that clients use more options to hedge their exposures

Flavio Figueiredo, Citi

"With US dollar weakness, some corporates haven't liked spot levels so much, and at the same time have also seen that tariffs have caused uncertainty. You put both together, and then you have two reasons to hedge less and shorter," says Alexandre Dogos, global co-head of market risk advisory for corporates at Societe Generale.

Dory Malouf, senior director of global value engineering at hedge advisory Kyriba, says that while market uncertainty continues amid shifting tariff policies and geopolitical risks, corporates will be less willing to lock in longer tenors.

"A lot of clients are trying to maintain as short as possible in the tenor so they can mitigate the impact as much as possible. They're not putting out these long, huge contracts with multi-million dollars of value until they see stability. So, they'll hedge what they need to hedge," says Malouf.

For traditional products such as FX forwards, changes in carry have had an impact on corporates' hedging decisions. Carry costs occur when a company locks in a long-term future exchange rate via a forward at a worse rate than spot, which is mainly based on interest rate differentials.

EUR/USD forward points vs spot

Source: Bloomberg
© Risk.net graphics

Share

For example, a European firm with US dollar revenues might want to sell those dollars forward, but at the 12-month point, the outright forward rate was 1.1776 as of October 30, compared with spot at 1.1575, meaning the trade would be generating a carry cost.

On October 29, the US Federal Reserve voted to cut interest rates by 25 basis points for the second meeting in a row to a target of 3.75–4%, while the European Central Bank has kept rates unchanged at 2%. That means the carry cost from one-year forwards that corporates previously faced has come down from 2.5% to roughly 1.5%.

Societe Generale's Dogos says that even if a corporate is comfortable with the level of spot to hedge, they may want to roll short-dated hedges until further US cuts and the carry costs come down further.

"So, you may think I like the spot, [but] I don't really like the differential that I'm getting, so I'm just going to lock in the spot and do shorter hedges," he adds.

Sound as a collar

Dealers are also seeing increasing demand for options-based hedges that are shorter dated and rolled automatically, such as collars, that come without any upfront cost and smaller credit charges.

"Sometimes, what we see when there's volatility is that clients use more options to hedge their exposures, which gives them some flexibility and upside benefit if the market moves back," says Citi's Figueiredo.
Collars are an options strategy in which European corporates with dollar exposures can buy a USD put option while selling a USD call to limit losses and cap potential gains.

Sahay says European exporters are looking to hedge using forwards with added collars or other types of optionality to provide flexibility, as well as protection against worst-case scenarios.

Paul Eterstein, global co-head of rates and FX sales for corporates, sponsors and sovereigns, supranationals and agencies at Natixis, says the bank has also seen clients switch from forwards to options strategies this year amid the ongoing uncertainty.

"[We had] a European exporter that has large EUR/USD exposure that suddenly started to do some collars while they were previously almost doing only forwards. So that is quite a change," says Eterstein.

He says the product fits when there is a lack of clear conviction on the next move in spot while also looking to reduce the cost of carry.

Deutsche Bank's Sahay explains that the collar is an option structure but it is very lightly structured to suit most of the large-cap population.

"And a client would rather err on the side of making it shorter dated and then roll it if not needed, so that allows them some flexibility as well," she adds.

Flexibility in the UK

It's not just a European corporate story. Abhishek Sachdev, chief executive of Vedanta, a hedge and derivatives adviser for small-to-medium-sized entities predominantly based in the UK, says clients are also opting for short-term hedging of their FX exposures.

"It's unusual that we're seeing hedges like seven- and 14-day forwards, which I don't normally see from that clientele. People who have been doing, say, 60- or 90-day forwards were now doing a rolling window to 14-day hedges," he says.

Sachdev adds that clients in the UK have been willing to pay extra for flexi-forwards to take advantage of opportunistic exchange rates before the end of the contract. For instance, rather than taking delivery at the end of the 14-day tenor, they could exercise optionality to settle during a pre-defined window.

While this results in a more expensive hedge, Vedanta notes the flexibility enables firms to tactically take advantage of big swings in the marketplace.

Sahay also notes shortening of hedge tenors among UK clients with revenues coming from China or the US, where there are unfavourable levels to lock in the rate: “You’ve seen clients bring forwards down to up to one year, and then put in some optionality for a slightly longer tenor, just to make sure they have a worst-case rate cap. But their actual 100% deliverable delta forward hedges are reduced in tenor.”

Editing by Joe Parsons