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The Finance, Credit & International
Business Association

Service, Development, Growth



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An Overview of Foreign Exchange



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“There is no sphere of human thought in which it is easier to show superficial cleverness and the appearance of superior wisdom than in discussing questions of currency and exchange.”

Sir Winston Churchill

House of Commons

September 28, 1949





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FX in International Trade

All international trade transactions include an FX component.

- Settlement of a payment between 2 countries/currencies
- Market risk for one party
- Possible liquidity risk in less developed economies



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FX Basics





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Foreign Exchange Market

- Largest financial market in the world.
- Approximately \$2 - 4 trillion dollars (USD) are traded daily.
- Supply and demand market with currencies traded 24-hours, six days a week.
- On average, exchange rates change every 4.8 seconds.
- Free global trading
 - Clean float vs. dirty float





Standard Exchange Rate Format

EURUSD **1.2330**
(€1 = \$1.2330) **0.8110**

USDCAD **1.2940**
(CAD 1.2940 = \$1) **0.7727**

GBPUSD **1.3835**
 0.7228

USDCHF **0.9488**
 1.0539

AUDUSD **0.7785**
 1.2845

USDJPY **106.15**
 0.009420

NZDUSD **0.7255**
 1.3783

USDCNY **6.3422**
 0.1576



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What factors affect exchange rates?

Economic

- Balance of Trade
- Global Interest Rates

Political

- Sovereign stability
- International reputation
- Central Bank intervention

Market Psychology

- Economic news
- Short term reactions





5 Year Volatility Trend

	'12 – '13 % Change	'13 – '14 % Change	'14 – '15 % Change	'15 – '16 % Change	'16 – '17 % Change	Average YOY Volatility
AUD	-14%	-8%	-11%	-1%	9%	9%
GBP	2%	-5%	-6%	-16%	10%	8%
EUR	4%	-12%	-10%	-3%	15%	9%
CAD	-7%	-9%	-19%	-3%	7%	9%
CHF	3%	-11%	-1%	-2%	5%	4%
JPY	-18%	-18%	0%	3%	4%	9%
CNY	3%	-12%	-5%	-6%	7%	7%
SEK	1%	-20%	-8%	-8%	10%	9%



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Forecasting Exchange Rates





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Current Market Analysis

- Low Interest Rate Environment
 - Eurozone 0.00%; US 1.50%; Canada 1.25%; UK 0.50%; Australia 1.50%; Brazil 6.75%; and Japan -0.10%
 - Will the economic data continue to allow the Fed to hike?
 - How many more Fed rate hikes in 2018 (3 or 4)?
 - Higher US interest rates = stronger dollar?
- European Union
 - Brexit
 - Political turmoil
- China – always a factor





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Market Players

Who is affected by the foreign exchange market?

Indirectly

- All consumers

Directly

- Banks
- Importers and Exporters
- Traders and Investors
- Governments



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Spot Market

- Market in which currency deals settle the fastest.
 - 1-day value (CAD)
 - 2-day value (All other currencies)
- Standard Market Quotes
- Buy & Sell Market
- Interbank Market



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Mechanics of Currency Movement

1. Customer currency request
2. Bank sells funds
3. Customer provides payment instructions
4. Bank sends SWIFT message to their foreign correspondent requesting them to send the funds to beneficiary's bank

Note: Currency is always held in its home country.



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International Wire Transfer Compliance

Transparency in payments

- BSA
- OFAC Checks
- Travel Rule
 - Complete disclosure of ordering party and beneficiary information
- IBAN
- Compliance review at all points in payment chain



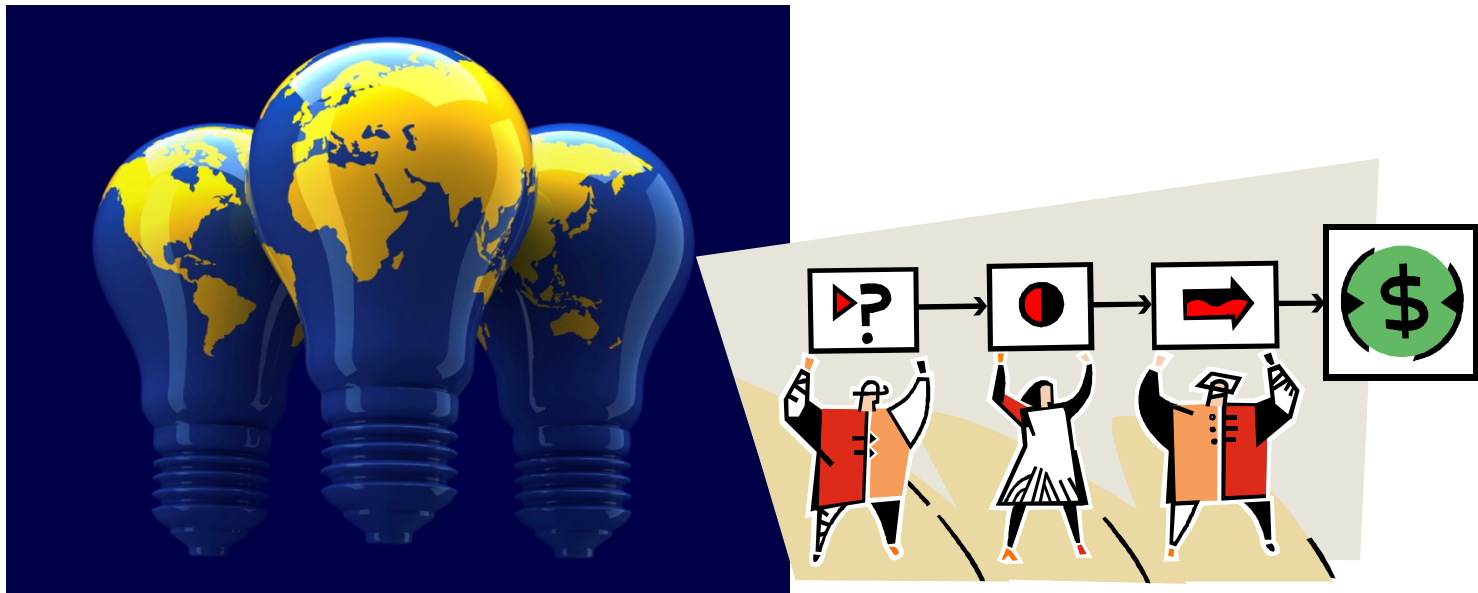


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Risks and Solutions in Foreign Currency





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Risks in Multiple Currency

Transaction Risk:

Short term risk on foreign-denominated payables and receivables

Translation Risk:

Longer term risk on foreign-denominated assets and liabilities (balance sheet conversion)

Economic Risk:

Business / competitive risk

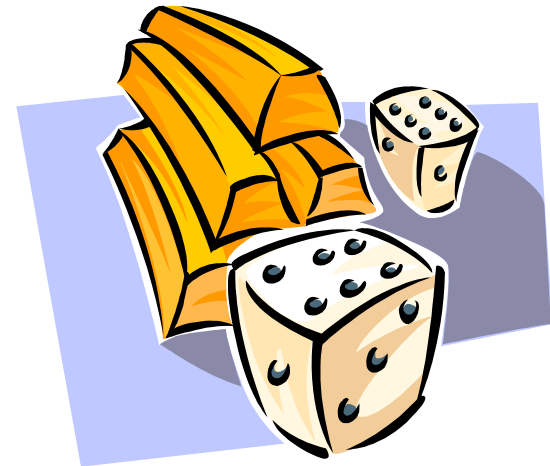


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Risk Aversion Strategies

- Defining currency risk
- Quantifying financial impact
 - Worst case scenario
- Create corporate strategy
 - FX vs. USD
 - Spot vs. Forwards
 - Partial cover vs. full cover
- Use hedging tools





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EXAMPLE

A German company is selling widgets to a US company. EUR is strengthening against USD.

Price: EUR10,000/widget 90 day payment terms

6/18 EUR1.20 = 1USD \$12,000

9/18 EUR1.25 = 1USD \$12,500



EUR Payment – importer pays \$500 more per unit



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HEDGING

Elimination or reduction of risk through the use of forwards or options. May sacrifice opportunity gain in order to reduce risk.

Why companies hedge?

- Uncertainty about FX markets and forecasts
- Secure USD payable
- Risk aversion

Why companies don't hedge?

- Conservative, Hedging = Speculation
- Lack of understanding of risks and methods of hedging



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Players

Applicant: Importer, buyer

Beneficiary: Exporter, seller

Freight Forwarder: Prepares docs, arranges shipment

Issuing Bank: Bank holding credit

Advising Bank: Bank which verifies and forwards LC to
Beneficiary

Negotiating Bank: Bank which handles documents and
payment processing

Drawee Bank: Bank which pays out LC proceeds



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Using FX in Import / Export





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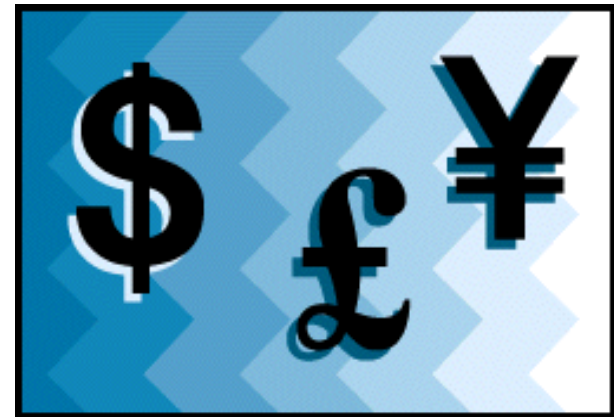
Why import in foreign currency?

Benefits

- Pay “true” price of product
- Control the payment
- Incentive to supplier
- Price Stability

Disadvantages

- Unavailability of funds
- USD cost instability





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Why export in foreign currency?

Advantages

- Offer stable price to customer
- Expand market
- Possible gains in exchange



Disadvantages

- Determining invoice rate
- Possible loss in exchange



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Tak

Merci

NAMASTE

Xie xie

Arigato

Kamsa hamnida

Danke

Grazie

Doje

Spasibo

Gracias

Thank you!

Fulton International Group

*Bringing our global reach to
your local markets.*

