

## Market Insights

October 2016

### Foreword

Here at PMC we like to share market insights and news that you might find valuable.

With the insight of our experienced Operational Treasury Consultants, we can help you design a forex strategy that will protect your organization and keep you ahead of the game.

We hope that you will find this information useful and welcome any comments or suggestions you may have.



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**To find out how PMC Treasury could help your business**

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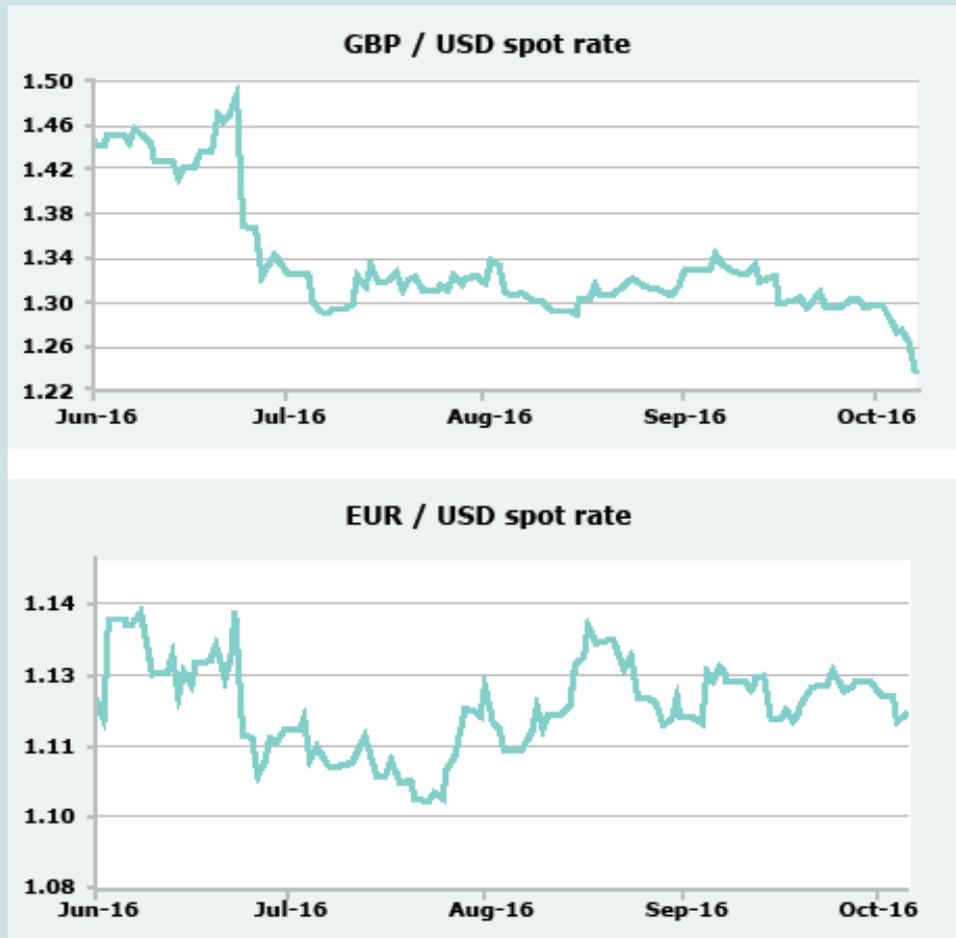
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It is no secret that increasingly volatile foreign exchange (forex) markets, resulting from numerous political, economic, and technical factors, represent a material threat to the profitability of companies operating in international markets. Surprisingly for many organizations, a strategy for effectively managing their currency exposure remains a mystery.



For businesses that have taken steps to design and implement a forex strategy, the higher market volatility becomes more manageable by reducing its impact on operational performance. Whilst a forex strategy cannot provide a long term solution for a fundamental shift in the value of a currency; it can buy time during which a company can reconsider its operational structure in light of a new forex environment.

PMC Treasury has over 27 years of experience in helping companies design and execute bespoke forex strategies. PMC brings together the latest thinking in forex management to ensure that a company both understands how the exposures arise and the competitive consequences of adopting an appropriate hedging approach.

## Identify forex exposures

At PMC Treasury, we advocate that a forex strategy should consider two key categories of FX exposure;

- 1) Ordinary course of business exposures arising from regular cash flows; and
- 2) Event driven exposures that occur periodically, such as cross border acquisitions.

It is essential to identify your organization's forex exposures arising from operational cash flow and contractual obligations. Only then can you determine which measures will protect your organization from adverse market movement.

Contractual obligations, in particular, deserve a closer look, as they may represent "hidden" exposures. In some organizations, a treasury team may be left in the dark about these obligations, e.g. supplier-related decisions can often be the responsibility of the purchasing department.

In a recent project a EU company was under contract to purchase raw material from another EU company. The transaction, on paper, appeared to be Euro to Euro. But upon further examination, it became evident that the purchase price was tied to the price of the raw material, which correlates to the dollar. This type of "hidden" exposure has the potential to affect both the operational performance of the business and the appropriate risk management solution.

The best hedge solutions are created not by the use of financial derivatives but an in-depth knowledge of how the exposures originate and what commercially available natural hedge solutions can be negotiated.

## Develop a strategy

An awareness and understanding of your organization's forex exposures gives you a foundation on which to build a robust forex strategy. At a minimum, a forex strategy should provide clear operational guidance for dealing with identified exposures and avoiding subjectivity. Obtaining buy-in throughout your organization is an essential step in developing a strategy of any kind. All parties, including the board of Directors, need to agree upon written policies that describe the strategy, its commercial and practical implications, as well as defined measures for daily processes and reporting. Open communication and regular review within the organization is critical as new risks are identified.

## PMC Treasury can help you manage your forex exposure

A well-thought out forex strategy can provide protection for business from market movements. Making the requisite changes within your organization can prove challenging; consulting with PMC Treasury will ensure your organization is prepared.

We will provide you with a proven methodology to accurately and quickly understand the origination of foreign exchange risk within your organization.

We will guide you in identifying, establishing, implementing and measuring your forex strategy. Our hands-on approach means we can build the infrastructure, including a forex risk model, that will support the management of your strategy.

For organizations that are exposed to global currency shifts, having a forex strategy should be the rule, never an exception.

**To learn more about how PMC Treasury can help position your organization to rise above changing economic tides, please contact us [here](#).**