

## Media Release

# What's Holding Australian Corporates Back?

(15 December 2014 – Australia) A lower Australian dollar would not spark offshore expansion aspirations for Australian corporates, newly released research by banking analysts East & Partners reveals.

The results are included as part of the Australian Dollar Barometer, structured from direct interviews with up to 900 actively importing and exporting enterprises.

Now entering its twentieth round and running continuously since 2010, the program represents a key monitor of business owners' AUD/USD expectations, forward risk management plans and FX exposure appetite.

A mere 26.3 percent of surveyed CFO's and treasurers indicated they would investigate international operations following a sustained decline in the Aussie Dollar. SMEs turning over less than A\$25 million per annum were the least inclined to expand offshore despite a sustained sell-off in the AUD/USD over Q4 2014.

The reluctance of businesses to consider offshore exporting opportunities despite a lower dollar speaks volumes of their tenuous business FX standing, offering an opportunity for banks and FX providers alike. Confidence is crucial.

Small businesses nominate concerns over transaction security as a major impediment to increased business FX exposure, ranking ahead of the cost of execution and their FX provider's reputation.

Surprisingly 48.0 percent of institutional enterprises turning over A\$500 million or more per annum were uncertain about their strategic response to a lower AUD/USD. This indicates a major degree of apprehension for the segment which is characterised by a high number of exporters.

Although exporters would seemingly welcome an improvement in competitiveness following a slide in the Aussie Dollar, they clearly remain unconvinced as to the long term trend for a lower exchange rate buffeted by commodity prices and central bank policy decisions.

Smaller businesses retain a heavy import weighting and face a period of uncertainty in terms of hedging and risk management. Incredibly over half of the segment is heavily exposed to intensifying volatility. Fully 56.8 percent of SME's do not plan to hedge their FX exposures, compared to 3.7 percent of upper corporates and 2.8 percent of institutional enterprises.

Greater numbers of importers plan to hedge ever expanding business FX volumes using Spot FX, Options and Forwards instruments. 93.3 percent of importing only businesses plan to hedge on average 89.2 percent of their exposure, compared to only 48.5 percent of exporters intending to hedge 83.3 percent of their business FX volumes.

“The results clearly reflect the disparity in trade profiles and priorities of large corporates versus small business owners”, East & Partners Senior Markets Analyst Martin Smith remarked.

“Although transaction security is nominated as the biggest barrier for smaller businesses seeking to develop a broader international presence, larger businesses are heavily influenced by their existing primary banking relationship in addition to the core price point”.

“Round 17 of the Barometer revealed businesses were hedging against a fall in the AUD/USD to at least 0.867 by the end of 2014 – a significant decline relative to the prevailing exchange rate of 0.905 at the time of the survey in February 2014. Their expectations have been more than confirmed. Business owners currently forecast the AUD/USD to remain under pressure, trading below 0.850 through to Q3 2015”.

“Following a sharp move against them small businesses would be drawing upon alternative sources of funding to cover any shortfall – in some cases even credit cards. This position is untenable in the long term in terms of stability and profitability, particularly with the RBA overtly targeting as low as 0.750 for the AUD/USD”.

RBA Governor Glen Stevens stated “0.750 would be a better level than 0.850 to help assist economic rebalancing. The best way to support confidence is to provide a message of stability and predictability. If at some point we can be more helpful for confidence by doing something different, then obviously that will be on the table, and we will take a fresh look at all these things in the New Year”.

## Would a lower Australian Dollar encourage your business to explore offshore expansion?

% of Enterprises

	\$5-25m (N: 213)	\$25-150m (N: 218)	\$150-500m (N: 188)	\$500m+ (N: 252)	TOTAL (N: 871)
Yes	23.5	28.0	25.5	27.8	26.3
No	41.8	36.7	36.2	24.2	34.2
Unsure	34.7	35.3	38.3	48.0	39.5
TOTAL	100.0	100.0	100.0	100.0	100.0

Source: East & Partners Australian Dollar Barometer – November 2014, Round 20

## About the East & Partners Australian Dollar Barometer

Up to 900 businesses turning over A\$5–500 million per annum are directly interviewed each quarter on their forecasts for the AUD/USD, specific hedging plans, current FX exposure and expected changes in FX exposure. The Australian Dollar Barometer is a powerful predictive tool given the unique market based outcomes derived directly from financial decision makers, all of which are actively engaged in foreign exchange markets and management of FX strategy and risk management procedures.

Released: Quarterly

Customer Segments:

- › SME – \$A5 - 25million
- › Lower Corporate – A\$25 - 150 million
- › Upper Corporate – A\$150 - 500 million
- › Institutional – A\$500 million plus

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