

Media Release

FX Management – A risky business

(19 September 2016 – Global) Businesses approach to currency risk management varies significantly worldwide, new research from market analysts East & Partners (E&P) shows.

The research, derived from interviews with 13,000 importers and exporters across ten countries, highlights emerging foreign exchange (FX) risk management trends, broker performance and receptiveness to digital innovation.

Citing a lack of knowledge, experience, and product understanding, small businesses universally continue to undermanage their exposure to currency volatility, however that trend is slowly changing.

According to the research, Canadian micro businesses demonstrate the highest rate (20.6 percent) of FX Options usage, while their Australian peers come in last with just 14.5 percent reporting using the product. Within the small to medium enterprises (SME) segment however, Australia leads with over 29 percent of businesses engaging with FX options while SMEs in the UK lag behind the rest of the world, with just one in five businesses implementing the hedging tool.

New Zealand micro businesses (65 percent) show clear favouritism for the FX Forwards market. That represents exceptionally high regional engagement, more than tripling the next closest performing country, the US, which sits at just over 19 percent. Similarly, more than three in four New Zealand SMEs use FX Forwards compared to the UK and Australia where the figure drops further to only one in four firms in the SME segment.

In both micro and SME segments, Asia based businesses engage with Options and Forwards at higher rate, 28 percent and 34 percent respectively, than most of their global counterparts.

The increased engagement, particularly among Lower Corporates which is approaching near universal uptake, has led to an increasingly fragmented business FX market as banks battle with newer providers for market and wallet share.

Previous rounds of E&P's research has found that businesses are increasingly chasing the best value available, or "multi-banking" their FX needs, consequently decreasing wallet share per FX provider.

Although falling wallet share trends have been sustained worldwide in 2016, it is clear advances made by non-bank FX providers have been halted as banks respond to the challenge with sophisticated multiproduct platforms and improved service propositions.

Martin Smith, Head of Markets Analysis, East & Partners Australia

“Australian businesses are carrying greater currency exposure as their import and export volumes grow, yet they are not nearly as savvy in managing FX their currency risk volatility with Forwards or Options compared to their global peers.

“As the Australian dollar approaches one-year highs against the greenback, internationally trading firms need to be more attuned to the risks they are facing. Minor fluctuations quickly erode margins, impacting cash flow and their bottom line.”

Simon Kleine, Head of Client Service, East & Partners Europe

“Small businesses in the UK were exposed to the worst drop in the Pound in over 30 years, and were overwhelmingly unprepared for it. Our research showed that just one in six SMEs expected the Pound to drop against the US dollar following the vote to leave the EU.

“While there’s growing use of Options and Forwards by UK small businesses, the vast majority - around three-quarters - remain highly exposed to further volatility, as they were in June 2016.”

Amit Alok, Head of East & Partners Asia

“Whether we are speaking to businesses based in Hong Kong, Singapore, Malaysia or the Philippines, it is clear the high level of cross border trade, multicurrency cash management and increasing usage of regional treasury centres is driving greater usage of Forwards and Options.

“The latest round of research reveals surprising currency trading volume forecasts but most importantly confirms businesses in the Asia region are moving away from a reactive stance to FX market volatility and instead removing the potential downsides from dealing in unpredictable FX markets at relatively low cost.

Key Insights:

- Three out of four Australian small businesses have never used Forwards/Options
- UK Lower Corporate Options usage reached 100 percent for the first time in 2016
- One in ten US Lower Corporates have never used Forwards
- Canadian Lower Corporates Options usage has increased six percent in the last two years to 98.5 percent
- French SME Options usage jumped twenty percent year-on-year to 16.2 percent
- Singapore Forwards usage (46.2 percent) outstripping Hong Kong (37.2 percent)
- Singapore Options usage (37.2 percent) outstripping Hong Kong (31.9 percent)
- Malaysian and Philippine Options and Forwards penetration pushing regional average down
- Only one in four NZ importers and exporters have never used Forwards

About East & Partners Global Business Foreign Exchange Research

East & Partners Business Foreign Exchange programs provide industry wide research structured from over 13,000 direct interviews with importers and exporters based in the UK, France, USA, Canada, Australia, New Zealand and Asia. Market share, wallet share, mind share, currency trading volumes and customer satisfaction analytics are captured. Results are presented by business segment.

- » Micro Business: A\$1 – 5 million annual turnover
- » SME: A\$5 – 20m million annual turnover
- » Lower Corporate: A\$20 – 100m million annual turnover

Fieldwork is conducted biannually. E&P's demand side analysis delivers a powerful data set incorporating product research and commentary for Spot FX, FX Options and Forward FX products and supporting services.

For more information or for further interview based insights from East & Partners, please contact:

Media Relations
East & Partners Australia
Nehad Kenanie
m: 0402 271 142
e: nehad.k@east.com.au

Head of Client Service
East & Partners Europe
Simon Kleine
m: +44 7455 169 469
e: simon.k@east.com.au



www.east.com.au