

BENEFITS OF USING EXPERT FX RISK MANAGEMENT RESOURCES

TREASURYONE WHITE PAPER - 2021

INTRODUCTION

In the last year, we have seen how volatile markets can be due to the current COVID pandemic plaguing the markets. We have witnessed EM currencies trade wildly in the past year, and the expectation is that this trend will become the norm as we adjust to life after the pandemic.

The major factors that will drive FX will be the race to vaccinate people worldwide, the massive amounts of stimulus that will enter the market looking for a home and global politics. It is easy to discern that the above could impact the market and sentiment quite abruptly depending on what factor gains traction.

The Rand will have to bear the above in mind, as well as, local issues on how the South African economy will handle pandemic and restarting itself after the battering it took in 2020, and the body blows that await in 2021.

Clearly, exchange risk management will be a sustained priority for South African CFOs and Treasurers in 2021

Key Capabilities:

- Best forex rates
- Design, implement and execute hedging policy
- Daily market view
- Complete administration
- WhatsApp messages
- Access to a Treasury Management System

TreasuryONE risk team:

- R300 billion FX traded 2020
- 7 dealers
- Advice on FX, Interest rate & Commodity Price

VALUE EXPERT STRATEGIC ADVISORY SERVICES

Many companies can radically improve their exchange risk profile by working with a professional expert service provider to add external strategy design and hedge program execution services to complement their finance operations.

The selection of a strategic provider enables the company to gain access to risk specialists with a proven track record in their specific commercial sector, be it mining, agriculture, retail, manufacturing or import/export to design a hedging program that will be tailored to fit the company's particular business patterns, outlook and risk policy. In conjunction with the hedging program, risk instruments will be recommended as well as execution timing objectives to optimise results.

VALUE OF EXPERT MARKET EXECUTION SERVICES:

A compelling reason for a company to work with an expert provider for FX market hedge program execution is the volatility, uncertainty, and complexity of this market. The necessary expertise is expensive, and in short supply, so it is often most efficient to work with a trusted partner to complement the in-house finance team.

The FX market itself is subject to the conflicting pulls and pushes of technical, fundamental and psychological forces.

Technical forces are supply and demand factors which are driven by monetary events, policy shifts, and significant market movements.

Fundamental factors are the underlying economic realities impacting a currency, such as inflationary indices, GDP performance and related factors such as industrial production and employment levels.

Psychology comes into play when unexpected events such as the Coronavirus, Brexit, the firing of a Finance Minister, or the election of an unexpected candidate president come into play – and when psychology is dominant, volatility increases and market direction may be the opposite of what common sense might suggest.

Through all of this, companies must somehow plan and time market interventions to achieve superior pricing over a sustained period if they are to secure a competitive advantage in hedging efficiency, and hence foreign revenue and asset value protection. Dealers must both instantly understand the current impact of changes and must anticipate how things are most likely to play out.

A further strong reason for working with a professional service provider is the **cost factor**. The economies of scale which are available will often outperform the staff and overhead expenses of setting up and operating an effective in-house dealing team. The supply of top-class dealers is limited, so it is often better to license the best available execution services when needed, through the use of the right strategic partner.

The cost/benefit analysis will naturally vary from company to company – but even the largest multinationals can find that thoughtful and informed use of expert, objectively proven third parties provide the best option for managing market operations.

There are significant benefits from managing market risk within a proper framework, in particular a real understanding of cause and effect of financial market forces on financial results.

CONCLUSION:

In several ways, the global economic and political outlook is uniquely challenging today, with a new normality of volatility and uncertainty. Working with a complimentary expert provides a means of eliminating many of the key risks associated with exchange exposures, leading to enhanced finance management though demonstrably more dependable revenue forecasting, and actual performance.



ANDRE CILLIERS - CURRENCY RISK STRATEGIST

Andre's career in treasury span more than 35 years and he has gained his extensive currency risk experience in both the banking and corporate arena.

Before joining TreasuryONE, Andre headed up the treasury department for a Tier One German international bank in South Africa. As a leading currency risk strategist and expert, Andre is a regular guest on TV and radio.

Adding external strategy design and hedge program execution services as outsourced complements to your finance operations is a good risk strategy.
