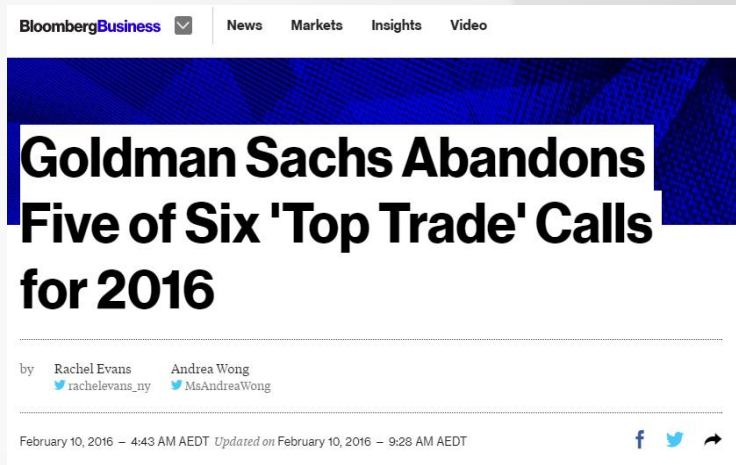




**THIS IS BUILDING AN  
FX RISK  
MANAGEMENT  
STRATEGY**

- What's happening in markets?
- FX outlook
- Managing your FX risk

- Start in fear. Now hope?
- China the short-term driver
- US rate hikes the other major factor
- Central banks have surprised; but so have markets
- Reversal: Volatility and uncertainty looms – more than ever



- The year started in total fear
- Credit growth – China’s QE – saves
- Government concerns
- What is the “L-shaped recovery”?

ft.com / globaleconomy

## Chinese Economy

Home UK World Companies Markets Global Economy Lex Comment

Economic Calendar Africa Americas Asia China EU India Middle East UK US

GLOBAL INSIGHT May 11, 2016 8:40 am

### China party mouthpiece echoes Soros' debt fears

Tom Mitchell in Beijing

Share Author alerts Print Clip Comments

'Authoritative' source warns party paper of 'deadly' risk to economy

- Four hikes: Bad. January collapse
- Two hikes: Good. March rally
- Market doesn't believe Fed. No hike priced until March 2017
- Fed warns they will act. Markets poised for disappointment



- Central bank action will be the big driver
- As Fed hikes, ECB and BoJ cuts
- ECB shocked in December, market shocked in March
- Market shocked BoJ

## FINANCIAL TIMES

Home World ▾ Companies ▾ Markets ▾ Global Economy ▾ Lex ▾  
Video Newsletters Blogs News feed Alphaville Emerging Markets Portfolio Special R

May 11, 2010 9:47 pm

### Central banks are losing credibility

By John Taylor

- China remains the major concern
- US rate hikes mispriced. Greenback poised for gains
- Central bank surprises to drive markets
- Volatility and uncertainty equals risk and opportunity







## High Forecasts

Contributor	Twelve Months ▼
BOFAML	1.5400
BMO	1.5300
Aminvestment	1.5100
SEB	1.5000
BARCLAYS	1.4800
CITIGROUP	1.4700
SOCIETE GENE	1.4700

## Low Forecasts

Contributor	Twelve Months ▼
BTMU	1.3600
STANDARD CHA	1.3600
JULIUS BAER	1.3500
TMB Bank	1.3500
ING FINANCIA	1.3400
CBA	1.3300
Mizuho Bank	1.3300

# WHY SHOULD A BUSINESS HEDGE ... ???



**Create certainty** around Gross Margin



**Generate predictability** of future cash-flows



Allow for concentration and **focus on core business activities**, not market fluctuations



## Nutritional Information

Serving size: Monthly Hedge

Serving per Container : 12 per year

	% Nutritional Value
Exposure	40%
Pricing Cycle	30%
Budgeted Rate	20%
Risk Profile	5%
Complexity	5%

\* Remember the key to health is a balanced diet and % are a guide only

- USD500k per month
- Regular and consistent

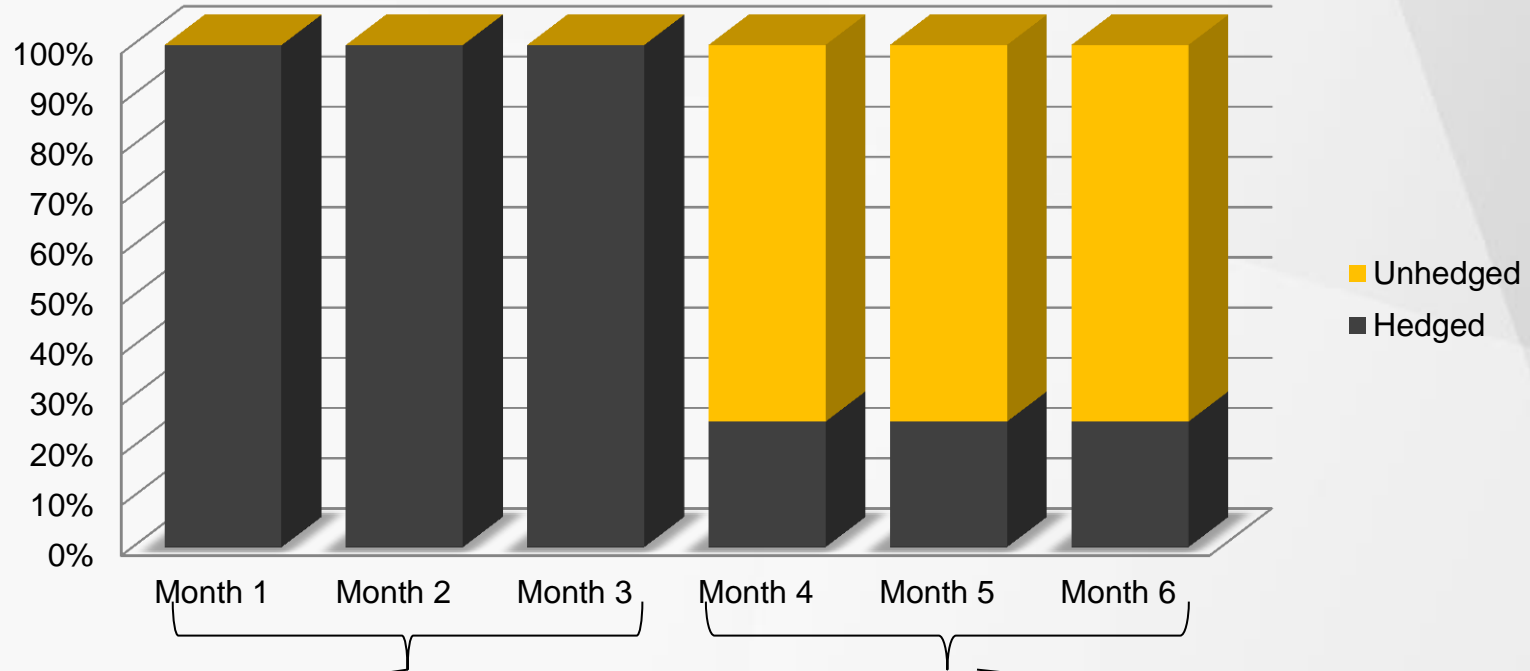
- Prices are fixed for three months
- Does not like to increase prices
- Slight competitive pressure if USD falls

- Budgeted Rate = 1.4000
- Desired Rate = 1.3500
- Break Even = 1.4500

- Simplicity in product selection is very important

- 100% Protection is required at all times
- Would like to participate if possible

# The Hedge Profile: *ABC Bottle Tops*



Fully Hedged for next 3 months because prices are fixed for that time and certainty is required

What two things have **NOT** been mentioned???

***PRODUCT & MARKET***

There could be a small amount hedged outside of 3 months to start building protection for the next pricing period

## *Forward Exchange Contract (FEC)*

- Provides Certainty
- No Participation
- Fully obligated
- Less Flexible than Options
- Rate Determined by:
  - *Spot Rate*
  - *Interest Rate Differential*

## *Currency Option*

- Provides Certainty (except for KO)
- Potential for Participation
- Usually Partly obligated
- More Flexible than FEC
- Rate Determined by:
  - *Spot Rate*
  - *Interest Rate Differential*
  - *Time*
  - *Volatility*

***Because you get more flexibility and the potential for participation the protection rate is usually worse via the option***





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