

Trade Talk Tuesday

Managing Foreign Currency Challenges

December 13, 2022

Thank you for joining the U.S. Commercial Service, along with the West and East Michigan District Export Councils, for 'Trade Talk Tuesday: Managing Foreign Currency Challenges'. This handout highlights what was discussed during the webinar, along with additional insight and resources.

- U.S. exporters will want to mitigate the risk of fluctuating foreign currency rates. Since buyers and sellers in different countries rarely use the same currency, a U.S. exporter and the foreign buyer will need to agree on what will be used for payment in a transaction. This could be the currency of either party or even a third, mutually acceptable currency.
- One of the risks associated with foreign trade is the uncertainty of future exchange rates. The relative values of the two currencies could change between the time the deal is concluded and the time payment is received. If you are not properly protected, a devaluation or depreciation of the foreign currency could cause you to lose money.
 - For example, if the buyer has agreed to pay €500,000 for a shipment, and the Euro is valued at \$0.85, you would expect to receive \$425,000. If the Euro later decreased in value to \$0.84, payment under the new rate would be only \$420,000, meaning a loss of \$5,000 for you.
 - If the foreign currency increased in value, however, you would get a windfall in extra profits.
 - Nonetheless, most exporters are not interested in speculating on foreign exchange fluctuations and prefer to avoid risks.

Export Resources

- **U.S. Commercial Service** — The U.S. Commercial Service is part of the U.S. Department of Commerce's International Trade Administration and helps U.S. companies get started in exporting or increase sales in global markets through a full range of expertise in international trade. The U.S. Commercial Service has trade professionals in over 100 U.S. cities and in more than 75 countries.

Develop your international business strategy, choose the best market for your product or service, and evaluate potential overseas business partners by connecting with your local U.S. Commercial Service Specialist (see page 5 of handout).

- **East & West Michigan District Export Councils (DEC)** — The Michigan DEC's are comprised of experienced volunteers who work in conjunction with the U.S. Commercial Service through hands-on consulting, educational and resource services to assist small and medium-sized businesses in growing internationally.

- East Michigan DEC - www.eastmichigandec.org
- West Michigan DEC - www.exportwestmichigan.com



- One of the simplest ways to avoid the risks associated with fluctuations in exchange rates is to quote prices and require payment in U.S. dollars. Then both the burden of exchanging currencies and the risk are placed on the buyer. However, such an approach may result in losing export opportunities to competitors who are willing to accommodate their foreign buyers by selling in the counterparties' local currencies. This approach could also result in nonpayment by a foreign buyer who finds it impossible to meet agreed-upon obligations owing to a significant devaluation of his local currency against the U.S. dollar.
- While losses due to nonpayment could be covered by export credit insurance, such "what-if" protection is meaningless if export opportunities are lost in the first place because of a "payment in U.S. dollars only" policy. Selling in foreign currencies, if foreign exchange risk is successfully managed or hedged, can be a viable option for U.S. exporters who wish to enter the global marketplace and remain competitive there.
- **Currency Convertibility Tips:**
 - Be aware of any problems with currency convertibility. Not all currencies are freely or quickly converted into U.S. dollars. Fortunately, the U.S. dollar is widely accepted as an international trading currency, and U.S. companies can often secure payment in dollars.
 - If the buyer asks to make payment in a foreign currency, you should consult an international banker before negotiating the sales contract. Banks can offer advice on any foreign exchange risks associated with a particular currency. The most direct method of hedging foreign exchange risk is a forward contract, which enables the exporter to sell a set amount of foreign currency at a pre-agreed exchange rate with a delivery date from 3 days to 1 year into the future.

Export Resources (cont.)

- **Additional Resources** — The U.S. Commercial Service partners with a number of organizations in order to better support Michigan's exporters. See our partners: <https://www.trade.gov/cs-grand-rapids-local-partners>.



- **Currency Convertibility Tips cont.:**

- If you're able to do business entirely in U.S. dollars, you may be able to avoid many of the difficulties and issues related to currency conversion. For more on foreign exchange risk, view Chapter 14 of the U.S. government's [Trade Finance Guide](#).

- **[Foreign Exchange Risk Management: How to Get Paid in Foreign Currencies Video](#)**

- **Strategies for Working with Foreign Exchange:**

- Review hedging instrument options to lock rates in advance. Talk with your advisor about selecting the best tool for your business needs: spot, forward, options, or cross-currency swaps.
 - Consider using natural hedging (buy and sell in the same currency) to avoid big fluctuations.
 - Fully review and understand your supply chain. Anticipate possible currency restrictions of your suppliers and your suppliers' suppliers.
 - Review your agreements. Evaluate how long is the agreement in place and what challenges may arise over time.
 - Work with an experienced practitioner to keep informed of recent trends and mitigate risks.
- For information on risk management philosophy, determining exchange rates, corporate foreign exchange exposures, and additional information on foreign exchange basics and hedging instruments, reference the following Huntington Bank resource documents.

Risk Management Philosophy

What is a Hedge?

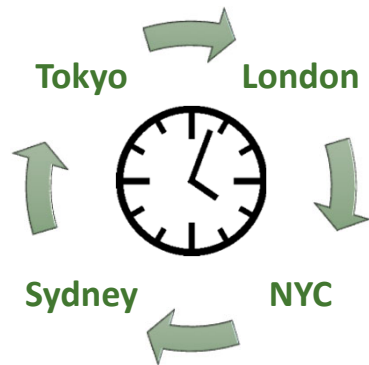
- A financial instrument, often a derivative, that has an offsetting financial impact to an underlying exposure
- For example, a company that borrows at a floating rate (LIBOR), may enter an interest rate swap to 'fix' its rate
 - As rates go up, the floating rate borrowing costs more, but the fixed-rate swap offsets this
- Can be used to protect Interest Rate, Foreign Currency, and Commodity exposures

Why Hedge?

- Research has found that risk management increases firm value. Hedging FX exposures allows for more predictable cash flows, and thus, provides investors and creditors greater visibility into operating performance.
- By hedging, companies can:
 - reduce volatility in earnings (earnings at risk) and/or cash flows (cash flow at risk)
 - protect budgets and plan capital needs
 - preserve equity value

Foreign Exchange Basics

At a high level, **Foreign Exchange** is the conversion of one country's currency for that of another. The two currencies involved in the exchange constitute the 'currency pair'. The Bank for International Settlements estimates that trading in FX markets averages \$6 trillion per day.



Most FX trading is done over-the-counter (OTC), meaning that counterparties trade directly with each other (ie, corporation vs. bank) instead of through formalized exchanges.

For this reason, foreign exchange trading can occur 24 hours a day, or more realistically, whenever international banks are open for settlement.

Foreign exchange transactions arise from international trade, capital flows, intermediation, and speculation:

- **International trade** - Exchange of goods and services
- **Capital flows** - Investments denominated in a foreign currency; intercompany capitalization
- **Intermediation** - Banks facilitating FX trades for clients. Rather than hold an open position, they cover risk in the inter-bank wholesale market.
- **Speculation** - Buying or selling foreign currency with the goal of later closing the position and realizing a profit
 - Depending on the trader or institution, positions can be held for just seconds or weeks at a time

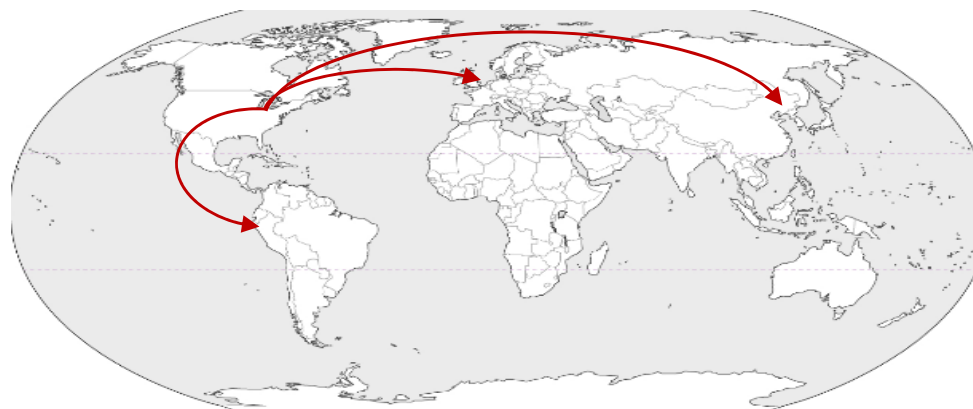
Determining Exchange Rates

Factors influencing exchange rates:

- **Economic performance**
 - Long-term currency movements are driven by trade balances, inflation trends, and Purchasing Power Parity
 - Short-term, traders look at retail sales, industrial production, employment data, GDP, PMI surveys, etc.
- **Political environment**
 - Policies such as tariffs, restrictions on trade, and protectionism can shape the environment for FX
 - Fiscal policy signals a country's willingness to finance a deficit & promote growth; stimulus versus austerity
- **Central Bank policies**
 - Monetary policy aims to control inflation, promote economic growth or employment, financial stability
 - Central banks may intervene to build foreign reserves or sell foreign reserves to support their currency
- **Speculative positioning (Supply / Demand)**
 - Short-term, foreign exchange rates are largely driven by flows in the interbank market and investor community
 - Speculators have, at times, been able to out-spend central banks (ie, Soros vs. the Bank of England)

Corporate FX Exposures

- **Transactions** – Parent company sells or buys its goods and services internationally
 - Balance Sheet Hedging, Cash Flow Hedging



- **Translation** – Parent company consolidates the financial statements of foreign subsidiaries into US Dollars
 - Net Investment Hedging

<u>US</u>	<u>Japan</u>	<u>UK</u>		<u>Consolidated</u>
\$ Assets	¥ Assets	£ Assets		\$ Assets
=	=	=		=
\$ Liabilities	¥ Liabilities	£ Liabilities		\$ Liabilities
+	+	+		+
\$ Equity	¥ Equity	£ Equity		\$ Equity

FX Hedging Instruments

Product	Description	Pro's	Con's	Practical Use
Spot	Exchange of one currency for another with immediate delivery	NA	NA	Make payment, or convert incoming foreign funds
Forward	Exchange of one currency for another with a defined delivery date past spot	<ul style="list-style-type: none"> • Straightforward hedge • Future rate is locked-in 	Not able to participate in favorable FX moves	Hedge recorded exposures or highly probable events
Options	The right, but not obligation, to exchange one currency for another at a strike rate	<ul style="list-style-type: none"> • Able to participate in favorable FX moves • 100% hedged otherwise 	Must pay upfront premium for the optionality	Hedge uncertain exposures or those with long tenors
Cross-Currency Swap	Agreement to pay principal and interest in one currency and receive principal and interest in another currency	<ul style="list-style-type: none"> • Converts interest rate in one currency to that of another • Notional exchange is also hedged 	Not able to participate in favorable FX moves, or favorable interest rate moves	Creates synthetic foreign currency debt



Meet Our Speakers



Randall Janiczek, CPA, Partner, International Tax Services, Plante Moran

"As a partner with the international tax services practice, I provide multinational and internationally active clients with creative and technically sound solutions for minimizing their global tax liability. I also assist them with regulatory compliance both domestically and in foreign jurisdictions.

I have expertise in IC-DISC export incentives, international mergers and acquisitions, cross-border withholding, endowment investments outside the United States, tax considerations for foreign investments in U.S. real estate, and other international tax issues. With more than 17 years of experience in the international tax arena, my clients appreciate that I offer them practical guidance, and I'm always available to answer any questions they may have."



Alejandro A. Rodriguez, Principal and Country Manager—Mexico

As a Principal and the Mexico Country Manager for Plante Moran's Global Services Team, Alejandro helps clients explore, enter, establish, and operate business ventures in Mexico, Latin America, and South America. He has more than 20 years of experience in both the U.S. and Mexican manufacturing industries, as well as involvement in a number of business start-ups for major U.S. corporations in Mexico. Alejandro's unique approach to cross-border business consulting is a result of his experience working for U.S. and Mexican companies and living on both sides of the border.

*Thank you for
joining us!*

- The U.S. Commercial Service and the
West & East Michigan DEC's



The World is Open for Your Business

Our global network of experienced trade professionals is located throughout the United States and in U.S. Embassies and Consulates worldwide. Whether you're looking to make your first export sale or expand to additional markets, we offer the expertise you need to connect with lucrative opportunities and increase your bottom line.



Export Counseling

- Develop effective market entry and sales strategies.
- Understand export documentation requirements and import regulations of foreign markets.
- Navigate U.S. government export controls, compliance and trade financing options



Market Intelligence

- Analyze market potential and foreign competitors.
- Obtain useful information on best prospects, financing, laws, and cultural issues.
- Conduct background checks on potential buyers and distributors.



Business Matchmaking

- Connect with pre-screened potential partners.
- Promote your product or service to prospective buyers at trade events worldwide.
- Meet with international industry and government decision makers in your target markets



Commercial Diplomacy

- Overcome trade obstacles to successfully enter international markets.
- Benefit from coordinated U.S. government engagement with foreign governments to protect U.S. business interests.

Let Our Global Network Work for You

Worldwide Reach

As the U.S. government, we can open doors that no one else can. With trade experts in more than 80 countries, we can provide you with on-the-ground knowledge and results.

Local Connections

Pontiac & Detroit (East Michigan) Offices
(248) 975-9600; (313) 226-3006

Director: Jennifer Moll, Jennifer.Moll@trade.gov

Senior International Trade Specialists:

Eve Lerman, Eve.Lerman@trade.gov

Jennifer Loffredo, Jennifer.Loffredo@trade.gov

International Trade Specialist:

Eric Podzorski, Eric.Podzorski@trade.gov

Grand Rapids (West Michigan) Office
(616) 458-3564

Director: Kendra Kuo, Kendra.Kuo@trade.gov

International Trade Specialist:

Allie VanDriel, Allie.Vandriel@trade.gov



U.S. Commercial Service Offices



Find detailed contact information for each of our offices at [export.gov/locations](https://www.export.gov/locations)

U.S. Offices

Alabama Birmingham	Colorado Denver	Idaho Boise	Maryland Baltimore	Nevada Las Vegas Reno	North Dakota Fargo	South Carolina Charleston Columbia Greenville	Virginia Northern Virginia Richmond
Alaska Anchorage	Connecticut Middletown	Illinois Chicago Libertyville Peoria Rockford	Massachusetts Boston	New Hampshire Portsmouth	Ohio Cincinnati Cleveland Columbus Toledo	South Dakota Sioux Falls	Washington Seattle Spokane
Arizona Phoenix Tucson	Delaware Served by Philadelphia, PA	Indiana Indianapolis	Michigan Detroit Grand Rapids Pontiac	New Jersey Newark Trenton	Oklahoma Oklahoma City Tulsa	Tennessee Knoxville Memphis Nashville	West Virginia Charleston Wheeling
Arkansas Little Rock	District of Columbia Served by Arlington, VA	Iowa Des Moines	Minnesota Minneapolis	New Mexico Santa Fe	Oregon Portland	Texas Austin El Paso Dallas Fort Worth Houston McAllen Midland San Antonio	Wisconsin Milwaukee
California Bakersfield Cabazon (Indio) Fresno Inland Empire (Ontario) Los Angeles Los Angeles (West) Newport Beach (Irvine) North Bay Oakland Sacramento San Diego San Francisco San Jose Ventura County	Florida Clearwater Fort Lauderdale Jacksonville Miami Orlando Tallahassee	Kansas Wichita	Mississippi Jackson	New York Buffalo Harlem Long Island New York Rochester Westchester	Pennsylvania Philadelphia Pittsburgh	Utah Salt Lake City	Wyoming Served by Denver, CO
	Georgia Atlanta Savannah	Kentucky Lexington Louisville	Missouri Kansas City St. Louis	North Carolina Charlotte Greensboro Raleigh	Puerto Rico San Juan	Rhode Island Providence	Vermont Montpelier
	Hawaii Honolulu	Louisiana New Orleans Shreveport	Montana Helena				
		Maine Portland	Nebraska Omaha				

International Offices

Algeria Algiers	Canada Calgary Montreal Ottawa Toronto	Denmark Copenhagen	Ghana Accra	Israel Jerusalem Tel Aviv	Malaysia Kuala Lumpur	Pakistan Islamabad Karachi Lahore	Saudi Arabia Dhahran Jeddah Riyadh	Taiwan Kaohsiung Taipei
Angola Luanda		Dominican Republic Santo Domingo	Greece Athens	Italy Milan Rome	Mexico Guadalajara Mexico City Monterrey	Panama Panama City	Serbia Belgrade	Tanzania Dar es Salaam
Argentina Buenos Aires	Chile Santiago	Egypt Cairo	Guatemala Guatemala City	Japan Osaka-Kobe Tokyo	Morocco Casablanca	Peru Lima	Singapore	Thailand Bangkok
Australia Canberra Perth Sydney	China Beijing Chengdu Guangzhou Shanghai Shenyang Wuhan	El Salvador San Salvador	Honduras Tegucigalpa	Jordan Amman	Mozambique Maputo	Philippines Manila	Slovak Republic Bratislava	Turkey Ankara Istanbul Izmir
Austria Vienna		Ethiopia Addis Ababa	Hungary Budapest	Kazakhstan Almaty	Myanmar Rangoon	Poland Warsaw	South Africa Cape Town Durban Johannesburg	Ukraine Kiev
Belgium Brussels	Colombia Bogotá	European Union	India Ahmedabad Bengaluru Chennai Hyderabad Kolkata Mumbai New Delhi	Kenya Nairobi	Netherlands The Hague	Portugal Lisbon	South Korea Seoul	United Arab Emirates Abu Dhabi Dubai
Brazil Belo Horizonte Brasília Recife Rio de Janeiro São Paulo	Costa Rica San José	Finland Helsinki		Kuwait Kuwait City	New Zealand Auckland Wellington	Qatar Doha	Spain Madrid	United Kingdom London
	Cote D'Ivoire Abidjan	France Paris	Indonesia Jakarta	Lebanon Beirut	Nigeria Lagos	Romania Bucharest	Sweden Stockholm	Uruguay Montevideo
Bulgaria Sofia	Croatia Zagreb	Germany Berlin Düsseldorf Frankfurt Munich	Ireland Dublin		Norway Oslo	Russia Moscow St. Petersburg	Switzerland Bern	Vietnam Hanoi Ho Chi Minh City
	Czech Republic Prague							

Begin market research, discovery, and selection

- U.S. Commercial Service - Country Commercial Guides, Top Market Reports, Events
- Michigan State University's globalEDGE & Michigan Export Growth Program
- World Bank Data

Classify your export products

- For customs purposes: Harmonized Tariff Schedule Number and Schedule B
- For compliance purposes: Export Commodity Classification Number

Find standards, customs, and Incoterms

- National Institute of Standards and Technology
- Country Commercial Guides
- Customs Info Database User Guide and Duty Lookup Tool
- International Chamber of Commerce Incoterms

Examine legal matters

- Internal Revenue Service - Tax Considerations
- Intellectual Property Protections
- BIS - Export Compliance Program
- U.S. Export Regulations and Trade Agreements
- Consider sales or distribution agreements

Determine logistics

- Determine who will arrange and pay for freight
- Complete required export documents
- Learn about the Automated Commercial Environment



Receive counseling, attend training, and utilize local resources

- U.S. Commercial Service - Counseling, U.S. embassy insights, webinars, strategies
- Michigan District Export Councils (MDEC East & West) - Volunteer networks of business professionals appointed by the Secretary of Commerce to advise exporters
- Michigan Economic Development Corporation (MEDC) - Grants for exporting activities
- America's Small Business Development Center Michigan - Help with international business plans
- Van Andel Global Trade Center - Consulting, Training
- Michigan Department of Agriculture and Rural Development - Assist food products & commodities

Research U.S. regulations

- Bureau of Industry and Security (BIS) - Export compliance, guidance
- International Traffic in Arms Regulations (ITAR)
- U.S. Department of Treasury - Office of Foreign Assets Control (OFAC) - Country embargo restrictions
- Consolidated Screening List - Prohibited individuals

Locate partners or buyers

- U.S. Commercial Service - Finding Partners or Buyers in International Markets, Perform Due Diligence in the Vetting Process
 - Website Globalization Review
 - Initial Market Check
 - International Partner Search
 - Gold Key Service
- MEDC - International offices and STEP grants

Decide on payment

- U.S. Commercial Service - Financing Options
- EXIM Bank - Resources for export loans, sales to international customers on credit terms
- Small Business Administration - Finance small business exports, locate SBA lenders
- Connect with your local bank to determine international capabilities

Celebrate growing sales

- Maintain good relationships with clients
- Measure revenue growth from export sales
- Promote new distributors and advocate for U.S. businesses abroad

Contact the U.S. Commercial Service Office - Grand Rapids, MI

Kendra Kuo, Director
U.S. Commercial Service - Grand Rapids
U.S. Department of Commerce
50 Front St. SW, Suite 1038, Grand Rapids, MI 49504
(616) 458-3564 • kendra.kuo@trade.gov

Allie VanDriel, International Trade Specialist
U.S. Commercial Service - Grand Rapids
U.S. Department of Commerce
50 Front St. SW, Suite 1038, Grand Rapids, MI 49504
(616) 240-0851 • allie.vandriel@trade.gov