Moving money globally

Are you FX savvy?

See the highlighted answers to find out

Q1 Foreign exchange (FX) risk can lead to:

a. importers paying more for goods at invoice date rather than when the order was placed; exporters receiving less of their local currency than budgeted for

b. lower costs and higher profit margins

c. higher costs and lower profit margins

d. all of the above

Q2 Over a six-month period (Q4 2019 to Q1 2020), Australian importers and exporters suffered an average FX loss* of:

a. AU$1,650

b. AU$15,440

c. AU$28,200

d. AU$111,600

Q3 What can influence exchange rates?

a. inflation rates and interest rates

b. global economics

c. world events (e.g. global instability, natural disasters, pandemics)

d. all of the above

Q4 What type of risk occurs when a seller's currency (the base currency) appreciates against a buyer's currency, causing the buyer to make a larger payment in their base currency to meet the contracted price?

a. transaction risk

b. translation risk

c. economic risk

d. option risk

Q5 In Q1 2015, Apple's revenue was decimated by the strengthening US dollar to the tune of:**

a. US$525.62 million

b. US$525.62 million

c. US$3.73 billion

d. US$5.54 billion

Q6 Translation risk occurs when:

a. a company is exposed to currency fluctuations when buying or selling a product overseas

b. a company's market value is impacted by unavoidable exposure to currency fluctuations and shifts in the economic landscape

c. a company owns a subsidiary in another country and the subsidiary's revenue or profits are converted to the parent company's currency at a lower value

d. all of the above

Q7 In March 2020, the Australian dollar dropped against the US dollar to a 17-year low of:

a. US$0.50

b. US$0.55

c. US$0.60

d. US$0.65

Q8 How much would an Australian importer have saved on a US$150K invoice if they'd locked in a $0.69 exchange rate in January 2020, rather than paying the March 2020 rate?

a. AU$13,378

b. AU$32,609

c. AU$55,336

d. AU$$82,609

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Q9 **An Australian exporter agrees to sell a shipment of goods for €50,000 when the Euro is valued at $0.68. By the time the buyer pays the invoice, the Euro has strengthened to $0.65, leaving the exporter with:**

a. AU$9,284 less than they'd budgeted

b. AU$9,284 more than they'd budgeted

c. AU$3,500 less than they'd budgeted

d. AU$3,500 more than they'd budgeted

Q10 **A forward contract is an agreement that allows you to fix an exchange rate for a future transfer.**

a. true

b. false

Q11 **A spot rate is:**

a. the exchange rate that a company uses to draft budgets and establish business objectives

b. the nominated exchange rate that allows a business to break even

c. the current or 'on the day' exchange rate that is quoted for any given currency

d. none of the above

Q12 **Which of the following strategies can businesses use to manage their FX risk?**

a. a forward contract

b. target rate transfer

c. a blend of options; for example, a mix of spot transfers and forward contracts

d. all of the above

Q13 **Why is it helpful for a business trading globally to know their break-even exchange rate?**

a. better understanding of the amount of FX risk they can take

b. clear awareness of the target exchange rate that needs to be hit as a minimum

c. helps with planning ahead and getting more cost certainty on their FX

d. all of the above

Q14 **Hedging is a strategy best suited to businesses that:**

a. have a regular need to buy goods or services from overseas

b. buy goods or services from overseas on an ad hoc basis

c. aren't subject to exchange rate shifts

d. have a high appetite for risk

Any questions? Talk to your dedicated OFXpert

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*East & Partners Global Business FX Research Program conducted March 2020 and September 2020, sample of 13,000 enterprises.
**https://www.businessinsider.com.au/apple-currency-losses-vs-google-2015-1?r=US&IR=T