

Treasury Trends

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Decent Exposure

In today's volatile economic environment, accurately managing foreign exchange ("FX") exposures and debt forecasts is critical for businesses of all size and shape. Global economic uncertainties, driven by geopolitical tensions, inflationary pressures, interest rate fluctuations, and supply chain disruptions, make it more challenging than ever to predict future financial positions. Mismanaging FX risk and debt can lead to significant financial distress, erode profits, and hinder strategic decision-making.

An importer looking to hold cover around 50% for policy compliance would 'suddenly' be fully hedged if volumes were to halve, or only 25% covered on a doubling of volumes. For borrowers, with capital spends very likely to be subject to ever tighter scrutiny, a mid policy hold can shift to maximum or even excess cover on project cancellation or working on significant time delays. Caution then needs to be had when reporting against policy compliance – it is critical that the underlying exposures are also verified and included in the governance pack. This will help to remove any ambiguity as to hedging being, for example, 50% of 'what'?

Understanding Exposures and Forecasts

Businesses operating internationally will be familiar with different types of FX exposure, including transaction exposure (resulting from currency fluctuations affecting receivables and payables), translation exposure (impacting financial statements due to currency conversion), and economic exposure (long-term effects on competitive positioning).

Borrowers need to have confidence as to debt forecasting, repayment schedules, and interest rate impacts. Given the uncertain interest rate environment and scale of global debt levels, borrowers must ensure that their debt is structured optimally to avoid excessive financial burden and liquidity risks. Investors need to manage concentration risk – amongst other risks.

All exposures and forecasts should undergo regular review – whether a formal 're-forecast' cycle, or a management team check that nothing material is happening across the business that might/will change exposures. Inviting non-finance team members into these discussions/review is critical, as it will be the frontline that

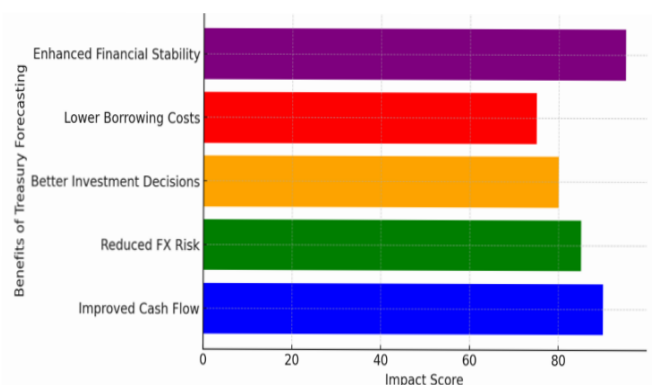
Key Points

- **Build/maintain strong communication with 'exposure creators' across your business. Are sales and purchasing forecasting models robust? What is the level of accuracy? What could make a material change to business expectations? When? How?**
- **Ensure regular reporting addresses exposure levels (and risks to them) as well as policy compliance. Are treasury exposures reported, challenged? By whom? How often?**
- **Confirm appropriateness of your treasury policy. When was it last reviewed? When is it scheduled for review?**

will have advance warning of upcoming changes – or potential changes. Treasury will always work best when armed with the latest information as well as the risks associated with such information.

Benefits of Managing Forecasts Correctly

Based on general treasury management principles and best practices observed, the following benefits from having accurate and timely forecasts are widely recognised in financial literature and industry reports from professional bodies, consulting firms' surveys (globally) and World Bank & IMF Reports on Financial Risk Management.



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Why Getting FX Exposures Right Matters

Whilst benefits become clear on good management processes, failure to manage exposures effectively can lead to severe financial losses, erosion of profit margins, and loss of competitive advantage. Some prompts to prioritise FX risk management include:

- **Cost Control:** Currency depreciation can significantly increase costs for companies reliant on imported goods and raw materials.
- **Revenue Protection:** For exporters, adverse currency movements can reduce the value of foreign revenue when converted into the home currency.
- **Balance Sheet Stability:** Unhedged FX exposures can lead to large swings in reported earnings, affecting investor confidence and share price.
- **Liquidity Management:** Sudden FX fluctuations can create cashflow mismatches making it harder to meet short-term obligations, and potentially causing unintended pressure on lender covenants.

The Importance of Accurate Debt Forecasts

Debt mismanagement can result in liquidity crises and/or 'unnecessary' interest and funding costs, increased interest expenses, and even insolvency. Accurate forecasting helps to ensure:

- **Adequate Liquidity:** Organisations must anticipate future debt repayments and interest obligations to maintain liquidity buffers. This supports wider treasury healthcheck goals to 'right size' cash buffers and liquidity targets.
- **Cost Efficiency:** Robust, and timely, forecasting helps organisations to manage interest and funding costs effectively – ie affords time to manage a strategy or process on own terms.
- **Creditworthiness Preservation:** Poor debt management can lead to credit rating downgrades, increasing borrowing costs and limiting access to capital markets.
- **Regulatory Compliance:** Governments and regulators closely monitor debt levels, and non-compliance with debt covenants can trigger legal and financial repercussions.

Managing FX Exposure and Debt Forecasts

To navigate economic uncertainties, proactive risk management strategies can be applied, including:

- Establishing clear FX and debt management policies to ensure consistency in decision-making.
- Completing regular audits and oversight to improve accountability and compliance with financial regulations.
- Implementing appropriate hedging strategies, to reduce uncertainty (forward contracts, swaps) and/or provide flexibility but capping the downside (options).
- Conducting stress tests on FX and debt portfolios helps assess how interest rate hikes or currency change impact financial health.
- Modelling worst-case scenarios enables organisations to prepare contingency plans and capital reserves.

Conclusion

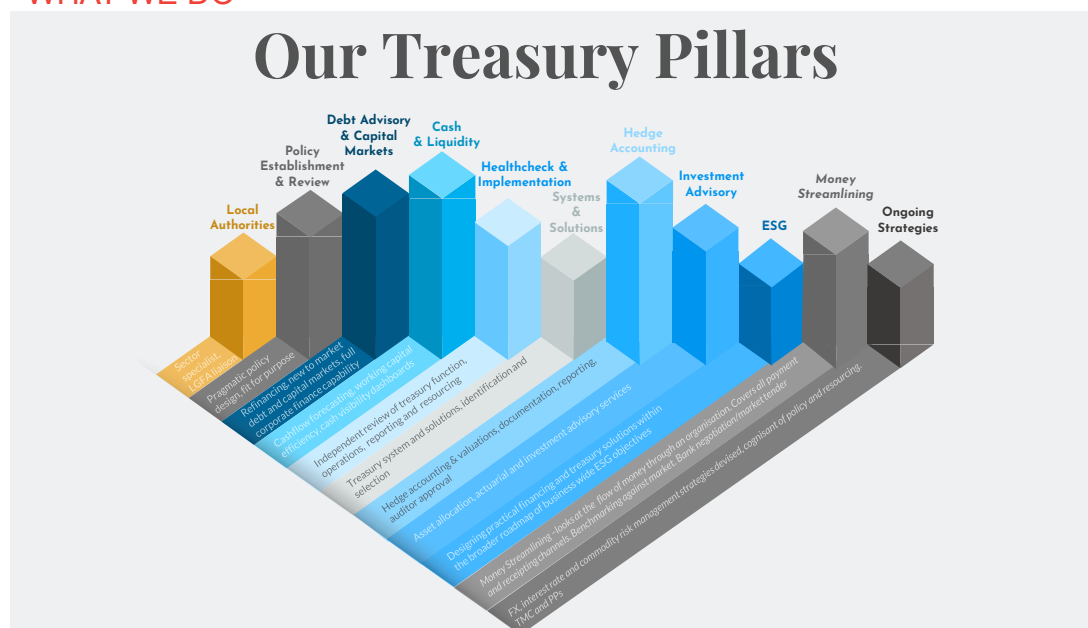
Getting FX exposures and debt forecasts right is not just a financial imperative but a strategic necessity. The consequences of mismanagement—ranging from reduced profitability to potential insolvency—underscore the importance of robust risk management frameworks.

By employing hedging strategies, conducting scenario analyses, leveraging financial technology, and adhering to disciplined governance, businesses can navigate volatility effectively. As global uncertainties persist, those that manage risk proactively will be better positioned for long-term financial stability and growth.

Treasury teams must remain agile, adjusting strategies as exposures evolve to safeguard financial stability and optimise financial performance. Effective treasury risk management ensures resilience against market volatility while supporting long-term business objectives.

The starting point: make sure exposures are being identified correctly and reported regularly.

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