5 Major Foreign Exchange Risks

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Agenda

The 5 Major Foreign Exchange Risks

1. Market volatility
2. Exotic currency volatility
3. Transferring money
4. Gaining market insight
5. Security

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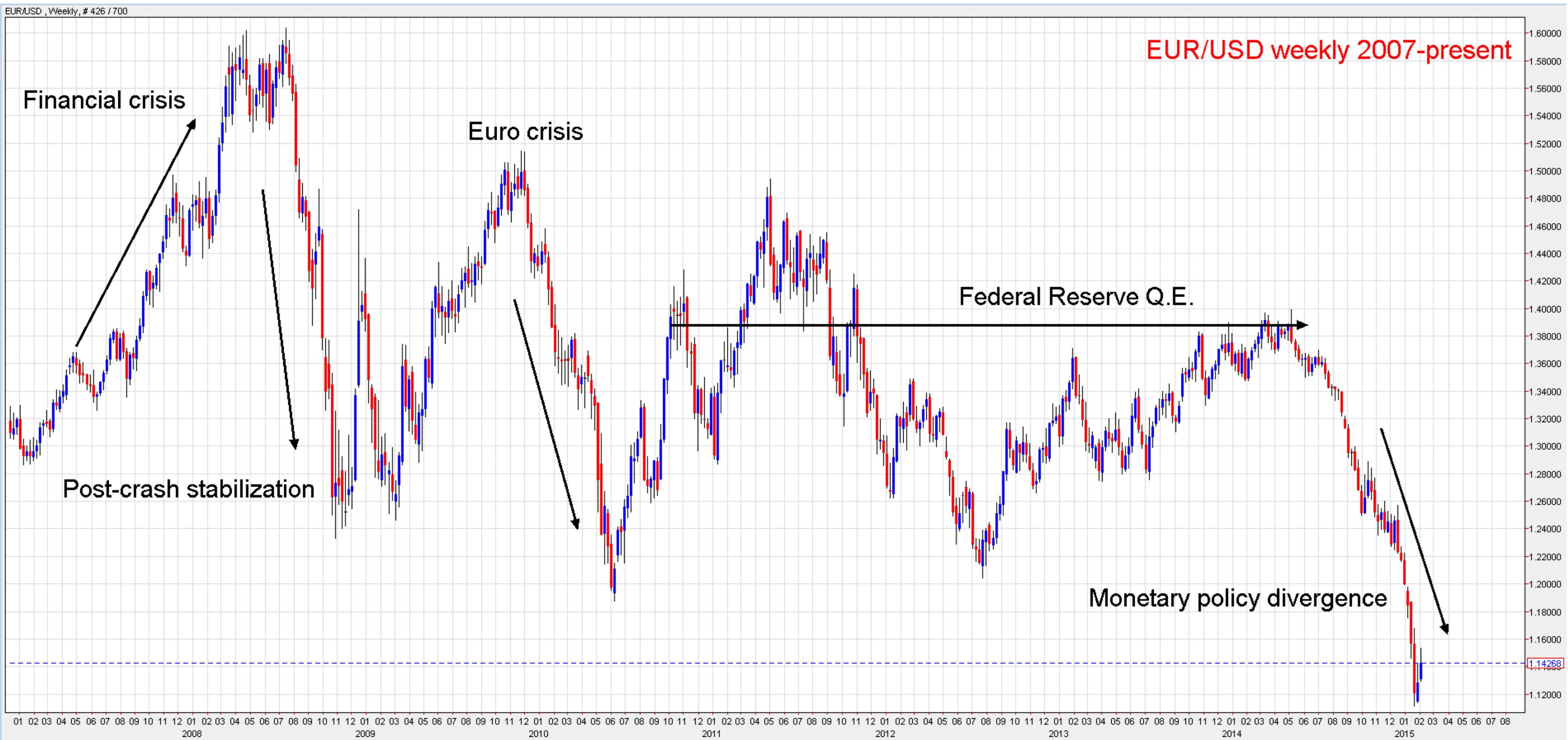
Risk 1: Market volatility

Forex trends are unpredictable both in duration and amplitude



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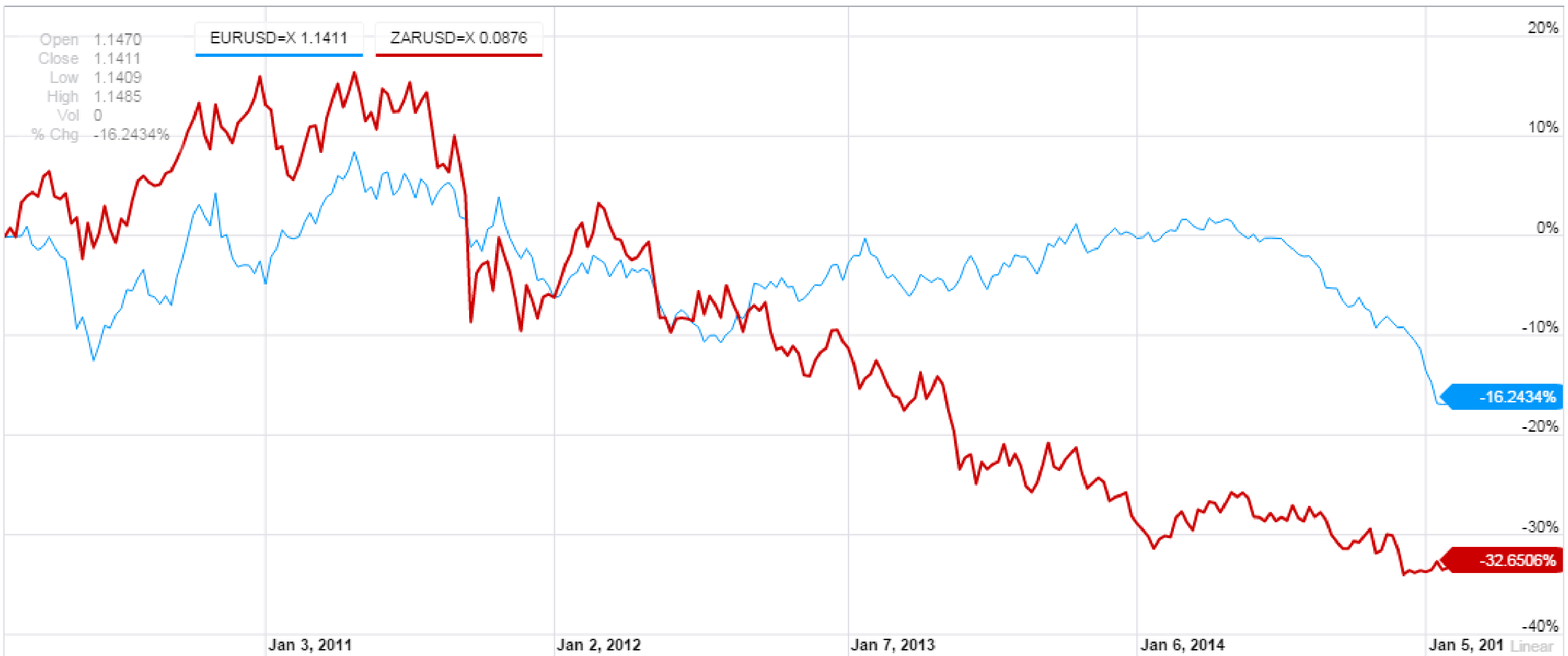
Risk 2: Exotic currency volatility

Recent trading patterns EUR/USD vs. ZAR/USD



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Transferring funds can be uncertain unless you have contracted an experienced team with local experience.

1. Exotic currencies have higher transfer risks
2. Regulation can be complex, uncertain and changeable
3. Exotic currencies are not a priority for traditional banks

Market insights are valuable and can make a huge difference if you are operating in countries such as South Africa.

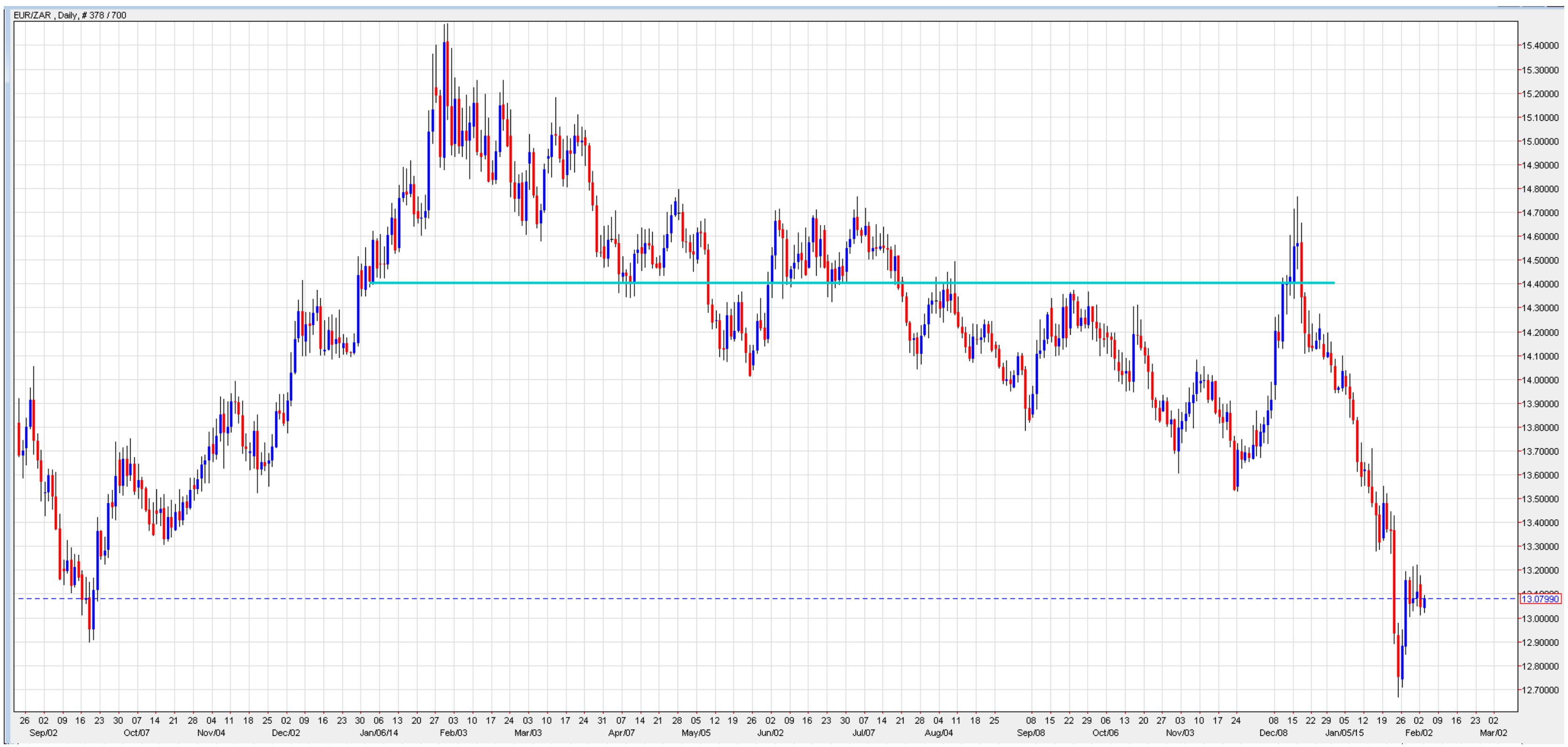
1. Awareness of macroeconomic environment & impact on currency
2. Anticipating macroeconomic events in advance

Risk 5: Security

- Well capitalized financial institution?
- HMRC licensed?
- FCA regulated?
- Transfer using SWIFT?
- Segregated client accounts?
- Compliant with money laundering regulations?

Case Study: Hedging Financial Risk

A forward contract gives your business certainty in an uncertain market, letting you avoid fluctuations in the currency markets that are not linked to your core business.



A forward contract allows you to set a price for a specific volume of currency to be used within a certain time frame

1. Cover your downward risk
2. Make use of flexibility with window forwards

Risk 1: Market volatility

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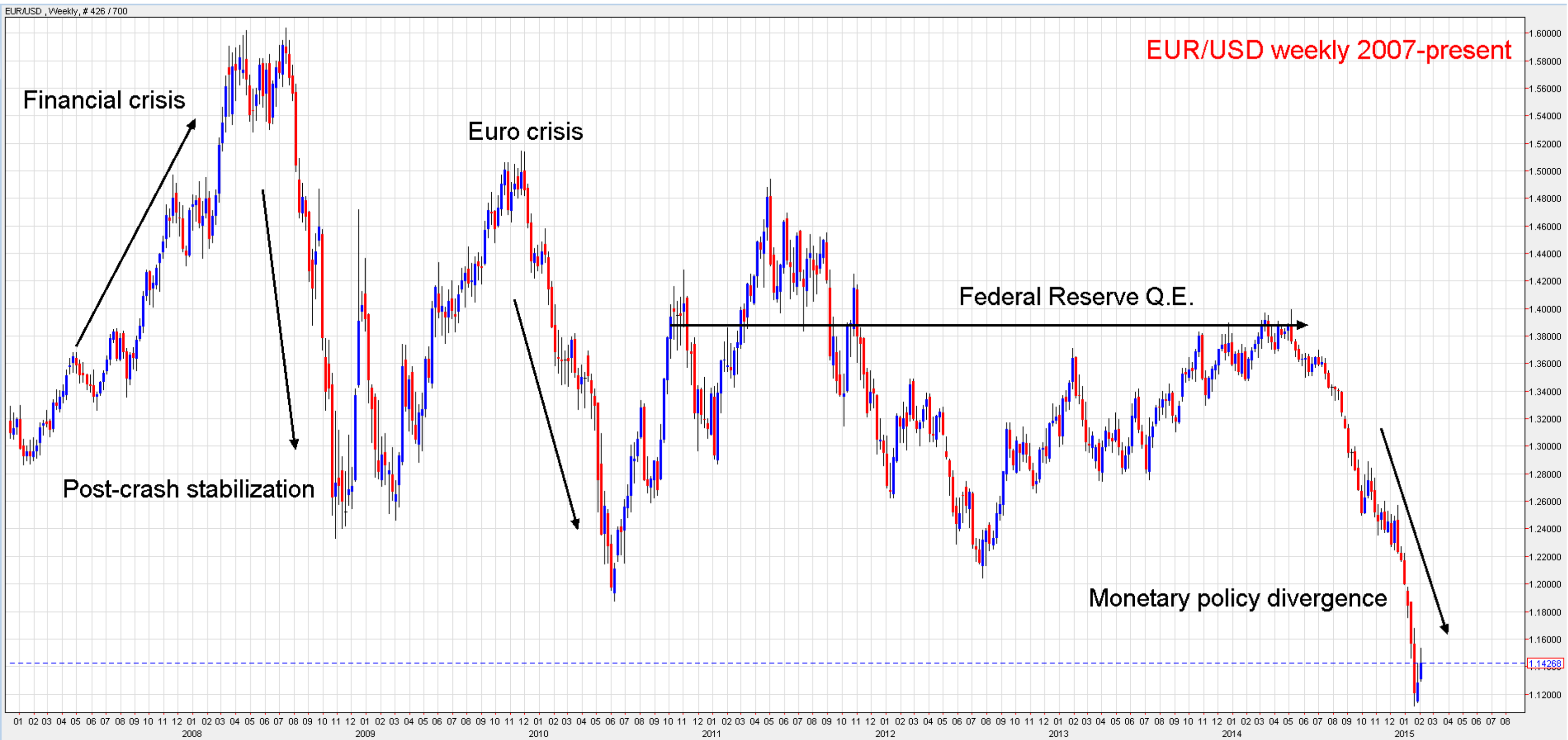

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EUR/USD: A continuing depreciation during 2015

- In line with our 2014 forecasts, the US dollar has strengthened against almost every other major currency
- The U.S. economy has performed well on the back of a stronger labor market and internal consumption
- Alone among major central Banks, the FED is posed to raise rates mid 2015

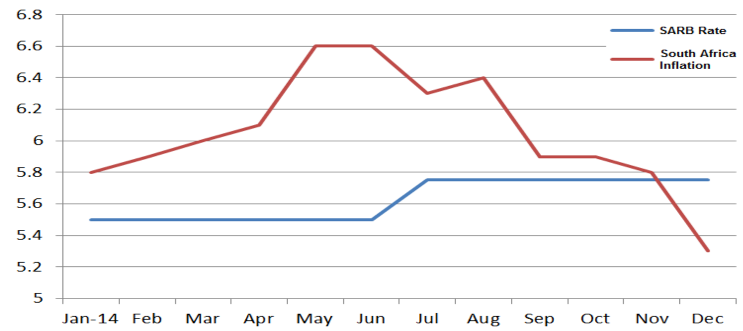
- The contrast with the Eurozone is stark
- Stagnant economy and rising deflationary pressures as the 2014 rebound appears peters out
- Aggressive easing from the ECB as QE is launched

- Although we think the Greece situation will be resolved in a non-traumatic way, the above factors will still put downward pressure on the Euro for the reminder of the year

	EUR/USD
Q1-2015	1.15
Q2-2015	1.10
Q3-2015	1.08
E-2015	1.05

Rand: Good prospects for stabilization in 2015?

- There is reason to be more optimistic for this year, particularly as regards EURZAR
- The ZAR will enjoy significant support from SARB rate policy. The latest SARB implies further rate cuts are off the table for now, and interest rates are squarely above the inflation rate
- The massive drop in oil prices is very positive for the oil-importing South African economy
- The depreciation experienced during 2014 has left the Rand at quite competitive levels
- Our forecast is therefore for slight depreciation against the U.S. dollar, but appreciation against the Euro.



	USD/ZAR	EUR/ZAR
Q1-2015	11.30	13.00
Q2-2015	11.50	12.65
Q3-2015	11.70	12.64
E-2015	12.00	12.60

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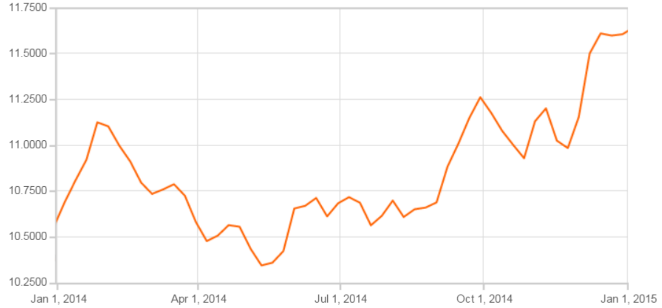
Rand: A difficult 2014

- The Rand has traditionally been fairly vulnerable to reversals in investor's optimism and loss of confidence in Emerging markets due to structural vulnerabilities
  - A high current account deficit of 5-6% of GDP, and the corresponding need to fund this deficit in international markets
  - A dependence on fickle, volatile bond portfolio flows to fund this deficit
  - A relatively low level of reserves (just five months of imports)

- The unsurprising result from the above has been a steady depreciation against the U.S. dollar during 2014, in line with our forecasts throughout the year



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To find out more, contact Ebury today

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