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US Companies Doing Business in Foreign Countries

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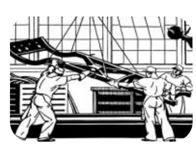
Potential Expenses

Property, Plant and Equipment
One Time



Payroll
Weekly

Utilities Expenses
Monthly

Miscellaneous
Monthly

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How to Pay

Or

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Why Pay in USD	
Easy	No apparent risk

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Why Pay in Local Currency

Known Risk	Potentially much cheaper	No Wire Fee	Easily Managed

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Recent Examples

1. Company A converted USD 95,000 to MXN. The rate they were charged was 14.42 and on the same date BBVA would have charged them 14.8650. The savings to the company, on this small wire, would have been USD 3,000. They will be investing tens of millions of USD in Mexico to build and outfit their plant. Savings per million USD would be USD 30,000.

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2. Company B is already operating in Mexico. They have payroll and other expenses which they send down on a weekly basis. They sent us their most recent invoices to compare prices. We found that:

On the first invoice, they paid
MXN 4,000,000 @ 14.9624 = USD 267,336.79

At BBVA rate
MXN 4,000,000 @ 15.4825 = USD 258,356.21

That is a savings of $8,980.50

On the second invoice, they paid
MXN 3,000,000 @ 15.1686 = USD 197,776.99

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MXN 3,000,000 @ 15.4935 = USD 193,629.59

Savings = 4,147.40

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So it is cheaper to pay expenses in Local Currency

Now What?

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Hedging with Forwards:

- Forwards are useful tools for managing currency exposure:
  - Effectively exchanging uncertainty for a known certain outcome.
    - Protect against "losses" if the currency moves against the underlying.
    - Forego any benefit, if currency moves in favor of the underlying.
  - Best suited to reasonably 'certain' exposures, and when there is a desire to lock in the current rate (perhaps because of market view or because risk management goal to eliminate all surprises).

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Example of Forward Contract

Company has monthly expenses of MXN 18,000,000
They want to hedge 3 months of their expenses
Current Spot rate is 18.00
USD value =1,000,0000
Forwards:

First month:
Spot + Forward points = Forward rate
18.00 + .03 = 18.03
MXN 18,000,000 @ 18.03 = 998,336

Second Month:
18.00 + .06 = 18.06
MXN 18,000,000 @ 18.06 = 996,678

Third Month:
18.00 + .09 = 18.09
MXN 18,000,000 @ 18.09 = 995,025

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What about Selling to Foreign Countries?

Why sell in local currency?

1. Speed up payments
2. Increase sales
3. Increase profit margin
4. Reduce risk of contract reduction or loss

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