



Teaching International Business Customers The Value Of Hedging

📌 hedging International Banking

Summary: Your international business customers need to manage risk, both interest rate risk and foreign exchange risk. Educating them on hedging and how it can mitigate these risks will not only help your customers, but solidify your customer relationships and allow you to grow income. We walk you through a potential scenario with a customer as they invest in equipment built overseas and how hedging can provide predictability and mitigate risk.

Hedges, tightly planted rows of shrubs, were originally used to define a boundary line and serve as a barrier to keep livestock from wandering off. While this likely still holds true in some areas, most of us enjoy the decorative purposes of hedges.

Another type of hedge that we enjoy can help financial institutions to manage business risk and interest rate risk. It can also help customers who need to manage their own risks around volatility in interest rates and foreign currency exchange. Community financial institutions (CFIs) that teach and convert business customers on the value of hedging can solidify relationships and grow income as they assist their customers in managing their risk. We give you an example.

Business investment needed. Imagine a customer that manufactures textiles. Following the athletic-leisure trend, the company decides to invest in a machine that can weave stretchy fabric. It will also expand its existing factory, so it has a place to house the new loom and the fabric it creates.

The company analyzes the cost of the machine, the number of workers required to run it, the market for stretchy fabric, the machine's energy use, and the cost of maintaining it. It concludes that this purchase would be a worthwhile investment and keep the company competitive.

International equipment maker. There's just one catch. A Swiss company is the only place the textile company can buy this specialized loom. This firm makes each loom to order. Companies need to pay for it in a series of payments during the 18 months that it takes to build and ship the product.

Interest rate and foreign exchange rate risk. During those 18 months, interest rates could rise. They could rise by even more during the following 5Ys, which is how long it will take the company to pay off the variable-rate loan it will use to fund the factory expansion.

Add to that, the Swiss loom manufacturer expects to be paid in Swiss francs. Foreign exchange rates will also fluctuate through the payment period. This new, high-tech loom might be a great investment now. However, to make the most of this investment, your business customer will need to mitigate interest rate and foreign exchange risks. It can use hedging to do that.

Hedging the risk.

- **Swaps and options** can help the company hedge its interest rate risk. This strategy can give the firm a fixed monthly payment, making it easier to plan. A hedge could even be designed so that payments are due

during periods when the company is likely to have strong cash flow.

- **Foreign exchange hedging** lets the company lock in the exchange rate between US dollars and Swiss francs. Even if the rate changes in six months, the firm's payments will stay the same.

These hedges don't guarantee that the bank's client company will pay the lowest possible prices. But, hedging offers the predictability that makes analysis and planning possible. Educating your business customers on hedging is especially important these days, since rates are expected to go up before they go down. If you don't have these hedging solutions yet, we are happy to talk to you about them. Then, together, we can help you educate your customers too.

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Business clients are expecting long-term, fixed rates from their financial institutions. See how you can meet both your needs and your borrower's needs with an interest rate swap using [Borrower's Loan Protection \(BLP\)](#). See how today.

ECONOMY & RATES

Rates As Of: 06/01/2021 05:21AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.01	0.00	-0.08
6M	0.03	0.00	-0.06
1Y	0.05	0.00	-0.06
2Y	0.15	0.01	0.03
5Y	0.82	0.02	0.46
10Y	1.63	0.03	0.70
30Y	2.31	0.02	0.66
FF Market	FF Disc		IORR
0.06	0.25		0.10
SOFR	Prime		ORER
0.01	3.25		0.04

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