OFXpert Handbook

A better way to manage
FX for your business

Michael, OFXpert since 2022

Welcome. Here's what we'll cover.

Michelle, OFXpert since 2020

OFX was created from the idea that there had to be a better, fairer way to move money globally.

That's why we have OFXperts, currency experts who can help businesses like yours develop strategies to take advantage of market opportunities and manage cash flow, even in times of market volatility.

If you have any questions or would like help building a plan for your business, our OFXperts are available 24/7, so you can always get real help, from a real person.

Let's get into it!

Trusted by over 1 million clients to move money globally

AU$293bn
transferred globally

25 years
of FX experience

ASX listed
since 2013

50+
regulators globally

Global
banking network

24/7
OFXpert support

Understanding currency

Knowing these basic concepts of the global currency market may help business owners better manage their FX risk exposure.

Major vs exotic currencies

Currencies can be broadly categorised as major or exotic.

Major currencies are those traded in high volumes across a large number of international markets. Examples include: USD, GBP, EUR, AUD.

Exotic currencies are not as liquid, resulting in a low volume of those currencies being traded. Examples include: PHP, MYR, and INR.

See the list of 50+ currencies we specialise in on page 13

Exchange rates explained

An exchange rate is the value at which one currency is “exchanged” for another. Currency pairs compare the value of two currencies against each other – the base currency, which appears first, versus the variable quote currency, which appears last. For example, if someone transfers JPY/USD, the Japanese yen is the base currency, and the US dollar is the quote currency.

In international markets, the “base” currency is often the US dollar (USD), which means currencies will be expressed against US$1.00.

In Australia, however, the practice is for all exchange rates to be quoted with the Australian dollar as the base rate. For example, when the Australian media reports that the exchange rate is currently 0.7400, this means that for every one Australian dollar paid, 74 US cents will be exchanged.

The most common way to determine the Aussie dollar’s relative strength or weakness is through the US dollar.

FX terminology in a nutshell

Some common rate terminologies you may come across when undertaking a foreign exchange transaction include:

The customer rate

The OFX Customer Rate is an estimated rate that is based off the current Market Rate and includes our margin but excludes any fees (if applicable). The rate may differ depending on the Market Rate; the value of the transfer; how often the client transfers; and or the currency pairing of their transfer.

The market rate

Also known as the "interbank rate" or the "mid-market rate", the market rate is the mid-point between the rate a currency can be bought or sold. These rates are not available to customers – similar to the sales of goods and services, the exchange rate quoted typically is the market rate plus a mark-up added by the provider.

Spot rate

The exchange rate you'll get for a currency pair, if you do an exchange right now (or two business days from the date of the quote).

Forward rates

Where the foreign currency rate is fixed at the time of the deal with a value date beyond two business days.

Marie-Gabrielle, OFXpert since 2018

Factors influencing exchange rates

1. Supply and demand

In simple terms, if there's an excessive supply of a certain resource, the value attached to it decreases, while an increase in demand raises.

AUD example

In global markets, Australia is typically considered to be a resource rich country, and as a result heavily reliant on commodities for economic growth. So commodity prices, like iron ore, copper and gold, can all have an impact on the demand and value of the AUD. High demand for minerals and agricultural products typically means increased demand for AUD, and vice versa.

2. Global economics and overseas data

Overseas data can influence a currency more than its own domestic data.

AUD example

The AUD is seen as a barometer, particularly for Chinese growth. As a result, Chinese economic data often has greater influence over a rise or fall in the AUD than Australian domestic data.

3. World events

Global instability such as political and military conflict, natural disasters and pandemics can impact demand and supply, and thus exchange rates. During times of global instability, investors tend to buy "safe haven" currencies such as the USD, Japanese yen and Swiss franc, selling off other currencies which subsequently see a fall in their value.

AUD example

The COVID-19 pandemic stalled the global economy as international borders closed and normal free trade conventions came to a halt. From March 8-23 2020, the AUD lost over 11 cents, diving below US$0.60, as liquidity dried up and markets panicked.

4. Interest and inflation rates

Other factors that typically influence the demand for a foreign currency and see exchange rates react are changes in inflation and interest rates, GDP, currency speculation, and employment rates.

What is FX risk?

Exchange rates are constantly changing, can be volatile and represent one of the major risks for businesses making international payments.

A sharp rise or fall in a currency can have a significant impact on costs and profits.

Exporters:
It could mean you receive less than originally intended on the date you issued an invoice to your customer.

Importers:
It could mean paying more for goods and services than you planned to sell them for, e.g. if you've post-paid suppliers.

OFXpert tip:

Currency fluctuations can affect your bottom line. But, if you put a risk management strategy in place, you won't be distracted by volatility.

Elise, OFXpert since 2021

Why managing currency risk matters

Client spotlight

Family-run business Zoratto Enterprises imports kitchenware products to Australia from around the world. They pay invoices in US dollars and use Forward Contracts for significant orders.

With cross-border payments adding up to millions of dollars, Operations Manager Andrew Zoratto needs to mitigate the risk of currency fluctuations.

When the AUD dropped to a low of US$0.50 in March 2022, Zoratto Enterprises were protected, they had secured a locked in rate of US$0.75. This saved them money and prevented an immediate price increase on goods, which could have affected the business in the short term.

$117,000 USD to AUD cost comparison

Example from May 19, 2022

Cost using a spot transfer at US$0.705
= AU$165,957

Cost using a forward contract at US$0.75
= AU$156,000

Savings: AU$9,957

The cost comparison is based on a single conversion of US$117,000k to Australian dollars using the Market Rate for demonstration purposes only. Customer transfers use OFX's Customer Rate and this combined with other factors such as different currency exchange amounts, currency types, dates and times will result in different actual costs.

Managing FX risk

Often companies will use a combination of these transfer types to their advantage, as part of a tailored FX strategy.

Spot Transfer

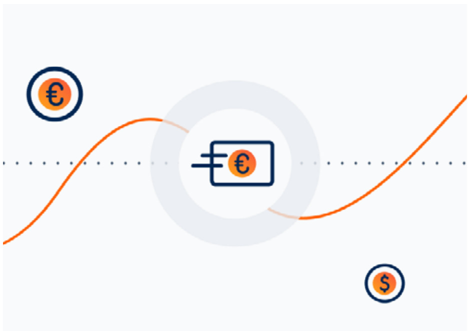
When you agree on an exchange rate **on the day you want to buy or sell your foreign currency**. This approach offers flexibility by allowing participation in daily market fluctuations. However, it can be a high risk strategy, as the currency market is volatile and when rates fluctuate a business may experience additional costs.

Read more on OFX.com

Forward Contract

An agreement that allows you to fix an exchange rate now for a future transfer (between two days to 12 months) so that you know what the exchange rate will be at the time the transfer takes place. This type of transaction **allows you to protect against adverse movements in exchange rates** between the date an order is placed and the time when payment is required.

Read more on OFX.com



Limit Order

For when the date of delivery of your funds is flexible. The day you receive the funds may not be the best day to transfer your money, so a Limit Order **lets you target a rate that works best** for your business. If the rate is reached, a transfer will be processed automatically, so you don't have to worry about missing out because you weren't monitoring the market.

Read more on OFX.com

Currency Option

There are a number of FX option products with varying terms and features. A common feature of most options is the ability to protect a rate for a period of time without a participation obligation – insuring against adverse movements in exchange rates – and allowing you to participate in favourable conditions between the order date and payment date. A premium (an upfront fee) to undertake this transaction is required.

Understand the impact of FX risk

Upside

- If the currency you need to buy weakens against your base currency, your costs fall
- Lower costs increase your company's profit margins
- Higher profits boost your business capabilities
- Makes your business more competitive
- Helps accelerate key investment decisions

Downside

- If the currency you need to buy strengthens against your base currency, your costs rise
- Increasing costs compress your profit margins
- Lower profits limit your business capabilities
- Makes your business less competitive
- Delays key investment decisions

OFXpert tip:

It's unwise to leave foreign exchange to chance. If you buy goods or services overseas monthly, the risk is multiplied with the number of transactions you make.

Brett, OFXpert since 2007

Measuring FX risk

It's vital to have a clear understanding of your foreign exchange risk. This can be done in a number of different ways.

To analyse your currency sensitivity, you could prepare a table showing how foreign exchange movements will affect the selling price of exported goods, or overall potential profits.

While these swings may seem extreme, we're increasingly seeing this range of exchange rate movements. The good news is, FX risk can be managed by implementing a hedging strategy.

Do you know your break-even rate?

Sensitivity analysis example

Let's say an Australian importer needs to pay a US$10,000 invoice. When they receive it, the exchange rate is 0.7400 (AU$1 buys US$0.74) and so they budget for that. If AUD/USD rises to 0.7800, the importer would save AU$693 because the US dollar is worth fewer AUD. Conversely if the AUD/USD falls to 0.6800, the importer will suffer a loss of AU$1,192.

AUD/USD rate (AUD $1 buys USD$)	Amount received from customer after conversion to AUD	Variance
0.8000	$12,500	+ $1,014
0.7800	$12,821	+ $693
0.7600	$13,158	+ $356
0.7400 (budgeted rate)	**$13,514**	**No variation**
0.7200	$13,889	- $375
0.7000	$14,286	- $772
0.6800	$14,706	- $1,192

Hope, OFXpert since 2021

7 steps to more certainty

Managing your FX risk doesn't have to be complicated. Here are seven key steps that could help you get started.

1 Identify what FX risk means for your business

- The more your business deals in foreign exchange, the greater your likely exposure.
- Doing business with politically unstable countries may have higher currency volatility.
- How tight are your operating margins and what's your break-even rate?

2 Consider ways of removing FX risk from the start

Is there a simple change in process that can help minimise the foreign exchange risk, such as aligning a customer billing cycle with supplier payments?

3 Set out clear risk management objectives

- What is the attitude of your business (from the top down) towards risk?
- Are there banking covenants that need protecting?
- Create a written plan for your currency hedging. It's important to avoid making emotional decisions as markets move.

4 Research different FX products available

All businesses are different so it's important to gain a good understanding of what can work for you. For example, a portfolio approach with 70% hedged and 30% unhedged could allow a company to protect its profit margin while still benefiting from any positive currency movements.

Brian, OFXpert since 2018

5 Regularly review hedging performance

Monitor and review any hedging against your objectives (quarterly, semi-annual or annual). Common mistakes to look out for:

- Judging performance solely on the 'opportunity cost' of implementing a risk management framework.
- Focusing on short-term currency rate movements, rather than over a period of time.

6 Seek professional assistance from the marketplace

Managing currency risk is a specialised area. If you don't have the skills within your business to create a strategy, an OFXpert could help. If you prefer not to outsource this function, then ensure you and/or relevant staff are properly educated about what it involves.

7 Diversify your risk

Consider blending strategies, for example, a mix of spot and forward contracts. While this may add complexity, some dynamic/fine margin business models may benefit from such diversification.

Talk currency for your business with an OFXpert

We covered a lot in this guide and hope you're feeling more knowledgeable about managing FX for your business.

Sometimes we all need a little help – that's why our OFXperts are available 24/7, day and night. Find out how much your business could save by working with an OFXpert.

Contact us

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Sign up now ›

Vani, OFXpert since 2013

We help businesses move money in the following 50+ currencies:

Majors

Currency	Code	Currency	Code
United Arab Emirates dirham	AED	Mexican peso	MXN
Australian dollar	AUD	Norwegian kroner	NOK
Canadian dollar	CAD	New Zealand dollar	NZD
Swiss franc	CHF	Polish Zloty	PLN
Chinese Yuan Renminbi	CNH	Solomon Island Dollar	SBD
Czech Koruna	CZK	Swedish Kroner	SEK
Danish kroner	DKK	Singapore dollar	SGD
European euro	EUR	Thailand baht	THB
Fiji dollar	FJD	Tongan Pa anga	TOP
Pound Sterling	GBP	Turkish lira	TRY
Hong Kong dollar	HKD	US dollar	USD
Hungarian forint	HUF	Vanuatu Vatu	VUV
Israeli Shekel	ILS	Samoan Tala	WST
Indian Rupees (RDA)	INR	CFP Franc	XPF
Japanese yen	JPY	South African Rand	ZAR

Exotics

Currency	Code	Currency	Code
Azerbaijani Minat	AZN	Peruvian Nuevo Sol	PEN
Bulgarian Lev	BGN	Papua New Guinea Kina	PGK
Bahraini Dinar	BHD	Philippine Peso	PHP
Brunei Dollar	BND	Pakistan Rupee	PKR
Chinese Yuan Renminbi*	CNY	Russian Ruble	RUB
Egyptian Pound	EGP	Saudi Riyal	SAR
Indonesian Rupiah	IDR	Seychelles Rupee	SCR
Indian Rupees	INR	Taiwanese Dollar	TWD
South Korean Won	KRW	Tanzanian Shilling	TZN
Kuwaiti Dinar	KWD	Vietnamese Dong	VND
Sri Lankan Rupee	LKR	CFA Franc	XOF
Moroccan Dirham	MAD		
Malagasy Ariary	MGA		
Malaysian Ringgit	MYR		
Omani Rial	OMR		

Thank you