Using external support to add value to FX activities

The ASB Kiwi Dollar Barometer tracks exporters', importers' and importer/exporters' exposures to foreign exchange risk, through surveying businesses with annual turnover of at least NZ$1 million. The Barometer also surveys businesses' expectations for the NZD/USD and businesses' hedging plans for managing foreign exchange risk, as well as special questions on topical issues in the FX markets.

- **Businesses use external assistance to varying degrees for FX hedging ideas, and writing and monitoring treasury policy.**
- **The larger the business the more likely it is to use external support and engage specialists.**
- **The NZD/USD is expected by businesses trading internationally to be around $0.65 in twelve months.**

Key "take-outs" from the ASB Kiwi Dollar Barometer:

This quarter our special questions focused on the extent to which businesses use external sources for FX hedging and trade recommendations, for writing treasury policy, and for monitoring treasury policy compliance. Banks were overall the main external source for hedging and trade recommendations, though large firms favoured accountants or treasury advisory firms. External input was less used for writing treasury policy: most small firms did not use it but more than half of large firms engage accountants or advisory firms. Over 80% of firms use external support for monitoring their policy adherence.

Survey respondents continue to expect the NZD/USD to fall over the next year. In contrast, the ASB Economics team expects the NZD/USD to rise, particularly as any Trump 'slump' in the NZD/USD appears increasingly distant.

The role of external sources for supporting FX activities

In this edition, we look at the use of external support. For the purposes of this report, we have split the sources into 4 categories. These are banks, non-bank FX providers, entities such as accountants and treasury-advisory firms, and other. We also allowed for firms to select no external source. We have focused on the differences when the data are split by firm size, as there was little difference when splitting the results by firm trading focus.

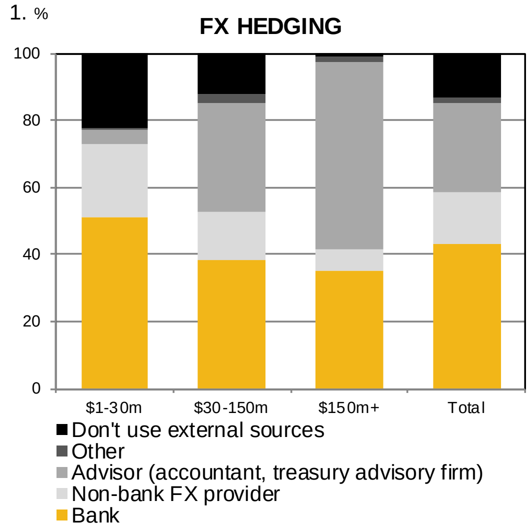
FX hedging/trade recommendations

Overall: There were marked differences in how firms used external sources when looking at FX hedging and trade recommendations (Chart 1). The larger the firm, the more likely it is to seek outside support. This could be for a number of reasons, including a greater need for external support and a greater payoff from it, against the potential cost of obtaining the support. Banks were the main overall source of external support here: every business, no matter what size, has some relationship with a bank, and they are a key FX provider. Accountants/advisory firms were the next most popular, although their use varied greatly.

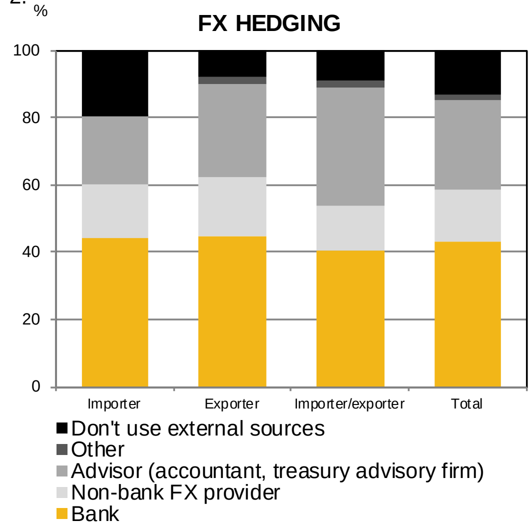
$1-30m: Of these firms, 77.8% use external sources to aid with FX hedging/trade recommendations, leaving 22.2% with no external input. The go-to external source was banks, followed by non-bank FX providers. Both of these entities provide FX transaction capability, and small firms may simply use their FX providers as a source of ideas. Smaller firms are also less likely to need complex FX hedging solutions and, as such, these providers are likely to comfortably meet the firms' needs – and likely to do so without an express fee.

$30-150m: Of this group, 88% use external sources, banks being the most popular. However, these mid-sized firms are considerably more likely to use an accountant or treasury advisory firm than the $1-30m group, perhaps due to more complex needs (and an associated preparedness to pay to have those needs assessed in detail).

1.



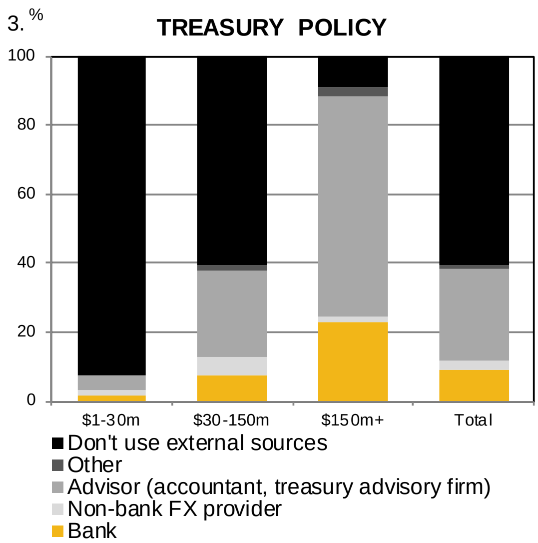
2.



Nick Tuffley | Chief Economist | 649 301 5660 | nick.tuffley@asb.co.nz

$150m+: A whopping 99.2% of $150m+ firms engaged outside sources. Accountants and treasury advisory firms are the favoured group, with 56.1% of $150+ firms selecting this category. This suggests the larger firms are more likely to pay for detailed, firm-specific assistance, perhaps reflecting the more complex nature and/or magnitude of their FX transactions.

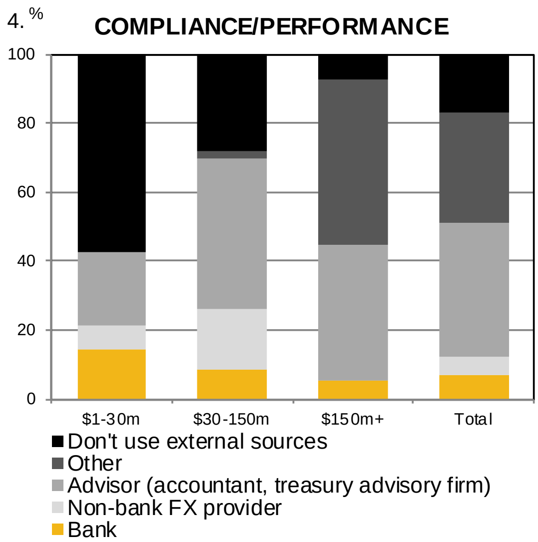
Firm focus: There are a few notable points when splitting the data by firm focus. The use of accountants/treasury advisory firms was more prevalent between importer/exporters at 35.1% than exporters (28.2%) and importers (19.8%). Importers were more than twice as likely as the other 2 groups to not use external support in this area, at 19.3%.



Writing treasury policy

Overall: Just a shade short of 40% of firms use external assistance for writing treasury policy, markedly down relative to hedging sources. When sought, accountants and treasury advisory firms were the most popular. The use of banks was less prevalent for writing policy. Banks' core expertise is FX transactions, though they will still be able to provide general guidelines. Finally, the larger the firm, the more likely it is to seek external support.

$1-30m: Just 7.2% of firms in this group seek outside assistance for writing policy. Such firms may only need a brief policy and may be content to get by without one. In the June 2016 NZD Barometer, we found 80.5% of $1-30m firms did not have a treasury policy and did not intend to introduce one over the following 12 months.

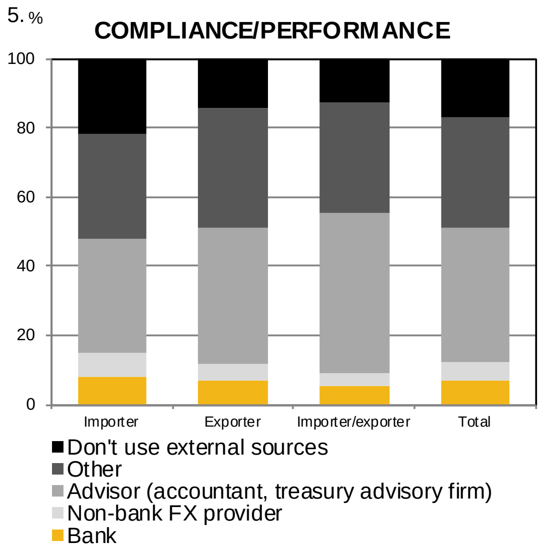


$30-150m: 60.7% of these firms don't use any sort of external assistance. The majority of those which do, go to a professional accountant or treasury advisory firm, with banks the next-preferred source.

$150m+: 91.1% of firms this size engage external assistance. Almost 2/3 of firms use an advisory firm/accountant to help write treasury policy, and 22.8% use banks. Almost 9% don't use any external help, though large firms may possess competent in-house skills for writing such policy.

Monitoring treasury policy compliance

Overall: There was a much higher response rate for using external sources to monitor treasury policy than for writing the policy. Very little help was sought from banks and FX providers, with accountants and treasury advisors the most popular choice, just ahead of 'other'.



$1-30m: 57.1% of these firms do not use external monitoring, perhaps due to the straightforward nature of their FX activities. 21.4% of firms in this segment use accountants/advisory firms and 14.3% use banks.

$30-150m: The use of external sources was much higher for this group at 71.7%. Well over half of mid-sized firms plumped for accountants or treasury advisory firms, with non-bank FX providers the next source.

$150m+: The main compliance monitoring choice for just under half of large firms was 'other', which in many cases is likely to be an external software package designed for this purpose. This source was followed closely by accountants/ treasury advisory firms.

Summary

Overall, the main determinate for the type of external support sought for FX-related activities is the size of the firm. In general, the larger the firm, the more likely it is to employ accountants or a treasury advisory firm for input on hedging and treasury policy matters. Smaller firms are more likely to use their bank and/or alternative FX provider.

NZD outlook: different paths

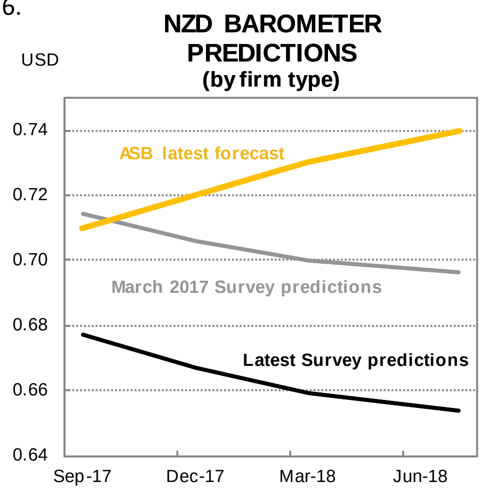
Over the survey period (April 24-May 12) the NZD/USD depreciated from 0.7020 to 0.6860. The USD was the main driver of the move, with renewed optimism over forthcoming US fiscal plans and increased Federal Reserve rate hike expectations strengthening the USD. The NZD came under pressure right at the end of the period, after the RBNZ's May Monetary Policy Statement showed no hurry to start lifting interest rates.

A major change compared to the last NZD Barometer is the divergence between the Barometer's NZD outlook and ASB's forecasts. Over the last few Barometers the general trend between the two has been the same, with the NZD expected to depreciate to varying degrees.

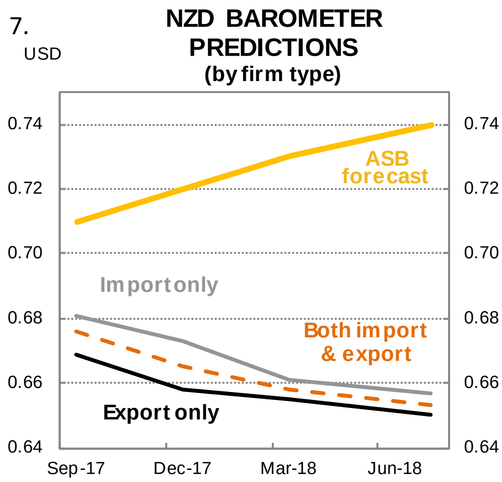
The survey results show an **outlook for the NZD that is somewhat lower compared to the March survey (Chart 6).** The March 2018 forecast (the longest term for the prior Barometer survey) is almost 4 cents lower this time round. As usual, importers expect a stronger NZD than exporters (Chart 7), with importer/exporters roughly in the middle. When splitting by firm size, the $1-30m group expects a slightly firmer NZD than the $30-150m and $150m+ categories, which have (more or less) the same outlook. **Overall, the survey results show the NZD is expected to depreciate through to March 2018, with the pace of depreciation then expected to slow a touch through to June next year.**

In contrast, **ASB Economics' NZD forecasts have changed considerably since the last Barometer was published, with the currency now expected to gain ground vs. the USD over the next 12 months.** We had previously expected Donald Trump's fiscal stimulus would swiftly move from drawing board to action, softening the NZD/USD this year. But we now expect additional US fiscal stimulus will be a long way off, along with any potential boost to the NZD. By the time the stimulus appears, the NZD is likely to be supported by domestic factors, such as a rising OCR.

6.



7.



FX hedging plans over the next 3 months

Hedging intentions for the next 3 months continue the slow move higher, marking another high since Q1 2014 (Table 1). Once again, the percentage of exporters looking to hedge has dipped, and marked another low. Given the NZD only ticked slightly lower over the survey period, that is no great surprise. **Importer hedging intentions have risen yet again**. There is no change when assessing hedging intentions by firm size, with the larger firms still more likely to hedge.

FX turnover for the next year

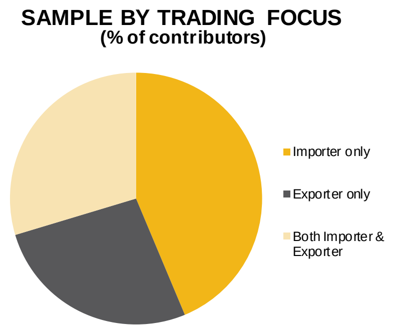
The overall percentage of respondents expecting an increase in FX turnover over the next 12 months has fallen for the first time since Q4 2015, although it remains within the recent range. The main shift was amongst importers, with nearly a 10 percentage point decline. By firm size, both the sub-$150m groups expect lower FX turnover. **The average size of the increase in FX exposure again remains around the two-year average of 5.5%**.

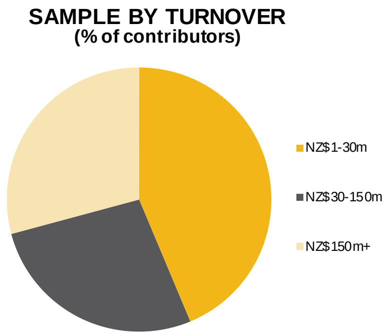
Table 1

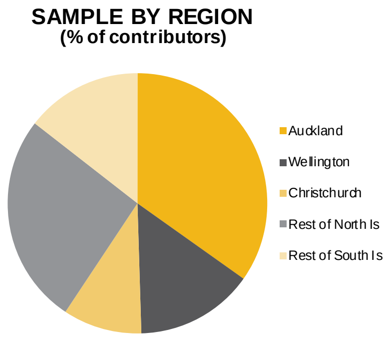
	Importers	Exporters	Import & export	$1-30m	$30-150m	$150+m	Total
Percentage of firms planning to hedge in the next 3 months							
Feb-17	91.3	52.4	94.7	68.2	91.4	98.4	83.0
Jun-17	92.4	50.5	95.5	65.5	97.4	98.4	83.4
If planning to hedge, what percentage of exposure							
Feb-17	89.6	91.6	97.1	81.9	97.8	99.5	92.5
Jun-17	91.3	88.9	97.3	86.1	94.4	99.2	93.1
Over the next year, do you expect FX turnover to increase vs. the last 12 months							
Feb-17	79.0	68.0	88.6	58.9	91.4	100.0	79.3
Jun-17	69.5	73.8	88.8	56.2	85.5	100.0	76.5
How much is FX turnover expected to increase by?							
Feb-17	3.5	7.4	7.0	4.0	5.8	6.6	5.5
Jun-17	3.5	7.7	7.3	4.9	5.0	6.4	5.5

About the Kiwi Dollar Barometer

The ASB Kiwi Dollar Barometer is prepared every three months based on a survey conducted by East & Partners. East & Partners is a market research and advisory firm. For the latest edition of the ASB Kiwi Dollar Barometer, East & Partners interviewed 434 businesses turning over at least NZ$1 million per year. Research fieldwork was conducted over a three week period ending 12 May 2017. Over this period the NZD traded between 0.6850 and 0.7060. Businesses were asked a range of questions about their exposure to and views about the NZD. The Charts provide information on the survey sample.







The specific questions asked were:

1. What approximate NZD/USD exchange rate level do you expect to see in: End June 2017? End September 2017? End December 2017? End March 2018?
2. What percentage of your FX exposures are you planning to hedge in the next 3 months?
3. Relative to the last 12 months, over the next 12 months by how much do you forecast your FX turnover to change?
4. What main external source do you rely on for FX hedging/trade recommendation?
   Bank/Non-bank FX provider/Advisor (accountant, treasury advisory firm)/Other/Don't use external advisor(s)
5. What main external source do you rely on for writing treasury policy?
   Bank/Non-bank FX provider/Advisor (accountant, treasury advisory firm)/Other/Don't use external advisor(s)
6. What main external source do you rely on for monitoring treasury policy compliance/treasury policy performance?
   Bank/Non-bank FX provider/Advisor (accountant, treasury advisory firm)/Other/Don't use external advisor(s)

ASB Economics & Research			Phone	Fax
Chief Economist	Nick Tuffley	nick.tuffley@asb.co.nz	(649) 301 5659	(649) 302 0992
Senior Economist	Jane Turner	jane.turner@asb.co.nz	(649) 301 5853	
Senior Rural Economist	Nathan Penny	nathan.penny@asb.co.nz	(649) 448 8778	
Senior Wealth Economist	Chris Tennent-Brown	chris.tennent-brown@asb.co.nz	(649) 301 5915	
Economist	Kim Mundy	kim.mundy@asb.co.nz	(649) 301 5661	
Data & Publication Manager	Judith Pinto	judith.pinto@asb.co.nz	(649) 301 5660	

https://reports.asb.co.nz/index.html
@ASBMarkets

https://reports.asb.co.nz/index.html
ASB Economics, ASB North Wharf, 12 Jellicoe Street, Auckland