

Media Release

Aussie SMEs starting to mitigate FX threat

(16 May 2016 – Australia) Australian businesses' willingness to hedge foreign exchange (FX) exposures is improving amidst a drop in average daily FX turnover, new research by East & Partners (E&P) shows.

Direct interviews conducted twice a year with 2,369 importers and exporters for E&P's Business FX program, now in its tenth consecutive year, reveals Options and Forwards usage has increased promisingly in the last year.

Despite a traditional reluctance from SMEs to use hedging strategies due to a mix of factors including lack of product understanding, experience, education, and costing, the research shows a 10 percent lift in 'regular' and 'occasional' Options usage year-on-year.

"The falling Australian Dollar (AUD) offers excellent opportunities for businesses seeking to diversify into new offshore markets, yet the overwhelming majority of SMEs are acutely unaware of the significant downside risk posed by a marginal rise in FX volatility," said Martin Smith, East & Partners Head of Markets Analysis.

"This can negatively affect a company's bottom line much more severely than expected, detrimentally impacting profit margins. With margins aggressively tightening in most industries, managing FX exposures appropriately is often the critical factor in successfully achieving sustainable growth. The research reflects CFOs and corporate treasurers growing caution" he said.

Micro businesses and SMEs predominantly purchase goods internationally as a component of their supply chain. As such, they are explicitly affected by AUD volatility, which reduces purchasing power and poses as a key threat to their long term growth aspirations.

This challenge presents as an opportunity for banks, brokers and new entrants alike by addressing the yawning knowledge and experience gap preventing broader adoption of fit for purpose hedging strategies to better support and protect Australian businesses expanding abroad.

The research clearly indicates importers and exporters lack any real barriers to switching between banks and FX providers for lower rates, fees and better service. Wallet share remains in a firm downtrend market wide as competition intensifies and margins narrow, reflected in lower markets revenue for all of the Big Four banks during interim 2016 earnings reporting.

"A high proportion of small business owners are simply "riding out" currency market movements. Now more than ever, volatility is set to increase in magnitude as turbulent macroeconomic events shake up normally disparate currency pairs, including the looming UK "Brexit" vote, growing Chinese private debt, unpredictable commodity prices and low or negative interest rate settings by Reserve Banks globally," said Smith.

Key findings:

- BOQ and HSBC are the fastest growing Spot FX providers by market share
- The Big Four cumulatively account for 63 percent of primary Spot FX relationships
- Big Four Spot FX market share is lowest among SMEs and Micro businesses at 58.5 percent
- Renminbi engagement set to surpass Euro engagement within the next year
- Following rapid market share growth in the last three years, non-bank competitors are failing to maintain momentum in 2016, losing ground to both international Banks and non-Big Four Banks
- Unlike other business banking products, businesses are comfortable using multiple (in some cases up to 7) FX providers on a regular basis
- One in five Spot FX customers nominate Western Union as their primary provider
- 90 percent of FX Options market share and Forward FX market share is Big Four designated
- ANZ, CBA and Western Union compete closely for best of breed product and service customer satisfaction ratings
- Overall business FX volumes are down 16.9 percent since May 2015
- Daily market average turnover for Spot FX, Forwards and Swaps has fallen from A\$15.386 billion to A\$12.786 billion

About the research

East & Partners Business Foreign Exchange program provides industry wide research structured from 2,500 direct interviews with banks, brokers and foreign exchange (FX) providers. The program encompasses key market benchmarks such as market share, wallet share, customer satisfaction, mind share and proprietary volume analysis across Upper Corporate, Lower Corporate, SME and Micro business segments:

- » Upper Corporate: A\$100 – 725m million annual turnover
- » Lower Corporate: A\$20 – 100m million annual turnover
- » SME: A\$5 – 20m million annual turnover
- » Micro Business: A\$1 – 5 million annual turnover

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