

Media Release

Asian Businesses Lose Up to US\$71,400 From Under-hedging

- 64 percent of small and mid-sized businesses in Asia suffered from FX losses in the past six months
- The downside risk of not appropriately hedging runs as high as US\$71,400

(22 September 2020 – Asia) Small and mid-sized businesses in Asia are suffering from currency losses of as large as US\$71,400 amidst rising foreign exchange (FX) volatility, new research from East & Partners Asia reveals.

It is a widespread issue – 64 percent of businesses admitted to having booked at least one FX loss between mid-February and mid-August 2020, with their losses ranging from US\$1,000 to US\$71,400. This averages out at about US\$11,500 per incident.

The bi-annual research looks at what is the largest total currency loss businesses have incurred within the last six months (inclusive of hedged, unhedged and across all currency pairs traded) from 1,864 businesses across four major markets in Asia including Hong Kong, Malaysia, the Philippines and Singapore. It is based on direct interviews with key business decision makers including business owners, chief financial officers (CFOs), finance managers and corporate treasurers.

Smaller businesses, especially those with annual turnover of sub-US\$20 million, are more prone to experience the full brunt of currency swings as few hedge their currency exposure appropriately.

This is in part due to a lack of experience and FX expertise within smaller businesses, coupled with the historically wide interest rate differentials between the US dollar and major Asian currencies which can make the cost of hedging high.

Just 47 percent of the businesses in the region use Forward FX contracts to protect against unexpected currency fluctuations, with uptake of FX Options even lower at 35 percent. Even for those businesses that do actively use FX risk management solutions, most struggle to find the right hedging ratio.

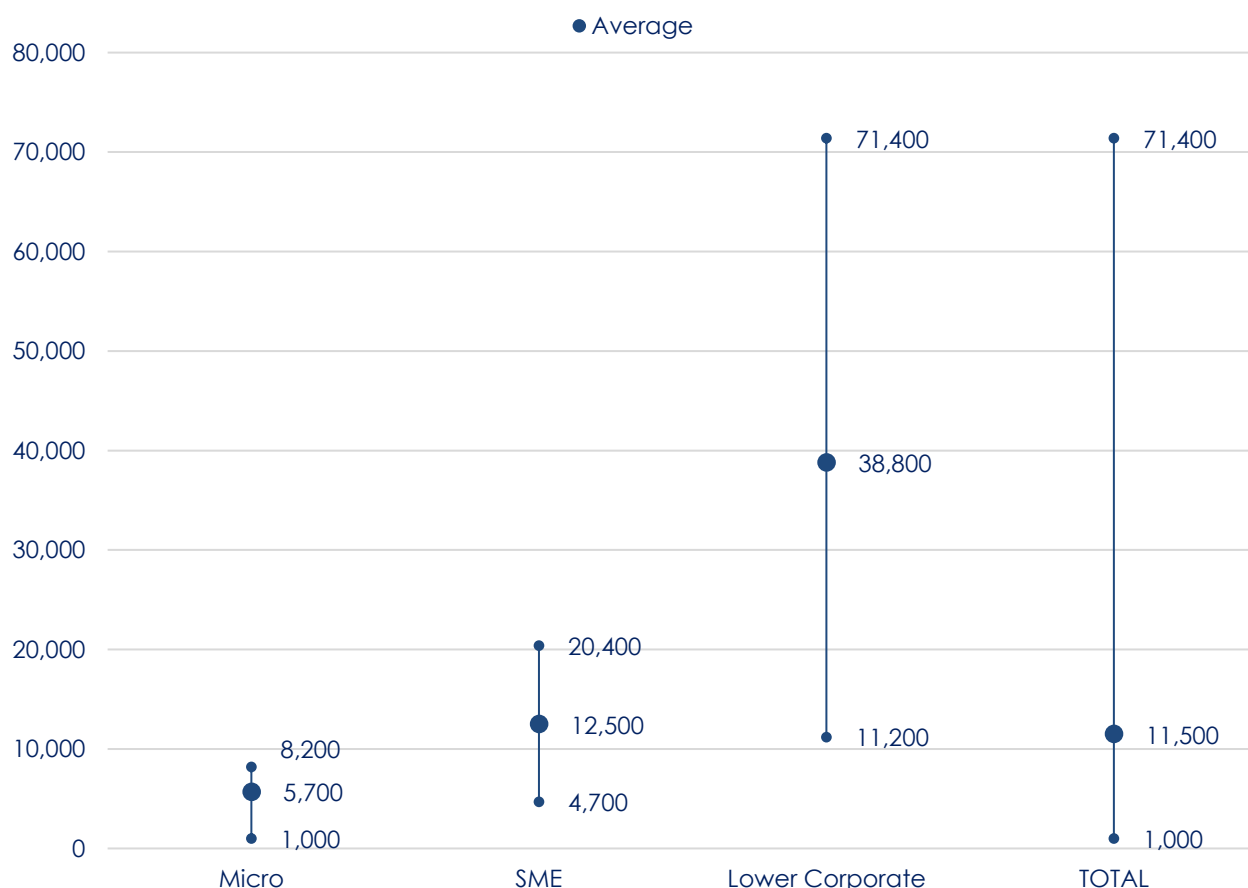
“We have seen increased demand for forwards and options over the past decade, but the latest FX loss figures suggest that still not enough is done by the businesses to mitigate this frequently overlooked risk. That said, businesses in the region are becoming more aware of the need to address currency risk and are looking for help from their banks and providers,” commented East & Partners Asia Business Head Sangiita Yoong.

“With intensifying geopolitical tensions and sluggish global growth as a result of the coronavirus pandemic, we expect these might prompt more business owners and CFOs to rethink their currency strategy,” Yoong added.

Asian businesses are significant traders in global currencies, especially the US dollar and increasingly the Chinese yuan, in addition to their home currencies. Knowing where hedging may be most useful and how best to handle currency risks are becoming increasingly vital to their bottom lines.

Biggest Currency Loss Reported by Businesses in Asia

US\$



Source: East and Partners' Asian Business Foreign Exchange Markets Program

For more information about this report, or East & Partners' research, please contact:

Head of Client Services, North Asia

Carla McMillan

t: +852 5937 7633

carla.mcmillan@eastandpartners.asia

Head of Client Services

In Kai Khor

t: +65 9820 3716

inkai.khor@eastandpartners.asia



www.eastandpartners.com

Methodology

This research is from the fifteenth round of East and Partners Asian Business Foreign Exchange Markets Program, a six-monthly research program. In total 1,864 enterprises across Hong Kong, Malaysia, the Philippines and Singapore from the Micro, SME and Lower Corporate segments were interviewed directly in July and August 2020. Interviews were conducted with the Business Owner, CFO, Finance Manager or Corporate Treasurer using a structured questionnaire.

The Micro segment comprises businesses with annual turnover of US\$1–5 million, while the turnover band for SME is US\$5–20 million and Lower Corporate US\$20–100million. Sector distribution in each country market reflects a natural sample of the population distribution.

About East & Partners

East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America.

