

## Media Release

# Entrenched Inflation Spurs Corporates FX Risk Management Action

(21 December 2022 – United States) In response to rapidly rising interest rates and stubbornly high inflation, US corporates are turning away from FX Options to Forward FX for hedging currency exposure, new research from East & Partners reveals.

Seeking greater flexibility in the event FX volatility exceeds expectations, over 2,200 CFOs and treasurers directly interviewed as part of East & Partners long running Business FX United States program revealed a step change in hedging intentions.

A sequence of shocks to the global economy stemming from geopolitical tensions, ongoing COVID-19 pandemic impacts, lingering supply chain disruptions and recession fears has led to significant exchange rate adjustments according to the Bank for International Settlements (BIS).

Notably a strengthening of the US Dollar as the US Federal Reserve (Fed) raises its target rate “faster and higher” than at any other time in recent history is reflected in cross-country disparities in “shock exposure” as central banks globally struggle to curtail rampant inflation.

In response to inflation hitting decade highs, the Fed has increased the effective federal funds rate by more than two percentage points in a mere six months, forcing US corporates to reassess their FX risk management strategy.

The Fed initially planned to increase its target rate to 4.40 percent by the end of 2022 yet raised interest rates by 50 basis points this month to range between 4.25 percent and 4.50 percent, well in excess of the Fed’s long-term target of two percent.

Evolving FX hedging behaviour is also reflected in heightened switching intentions with customer churn accelerating to record highs. US importers and exporters have never been more likely to shop around for both Spot FX and risk products execution, driven by both pricing and service incentives in addition to innovative new digital tools and platform features.

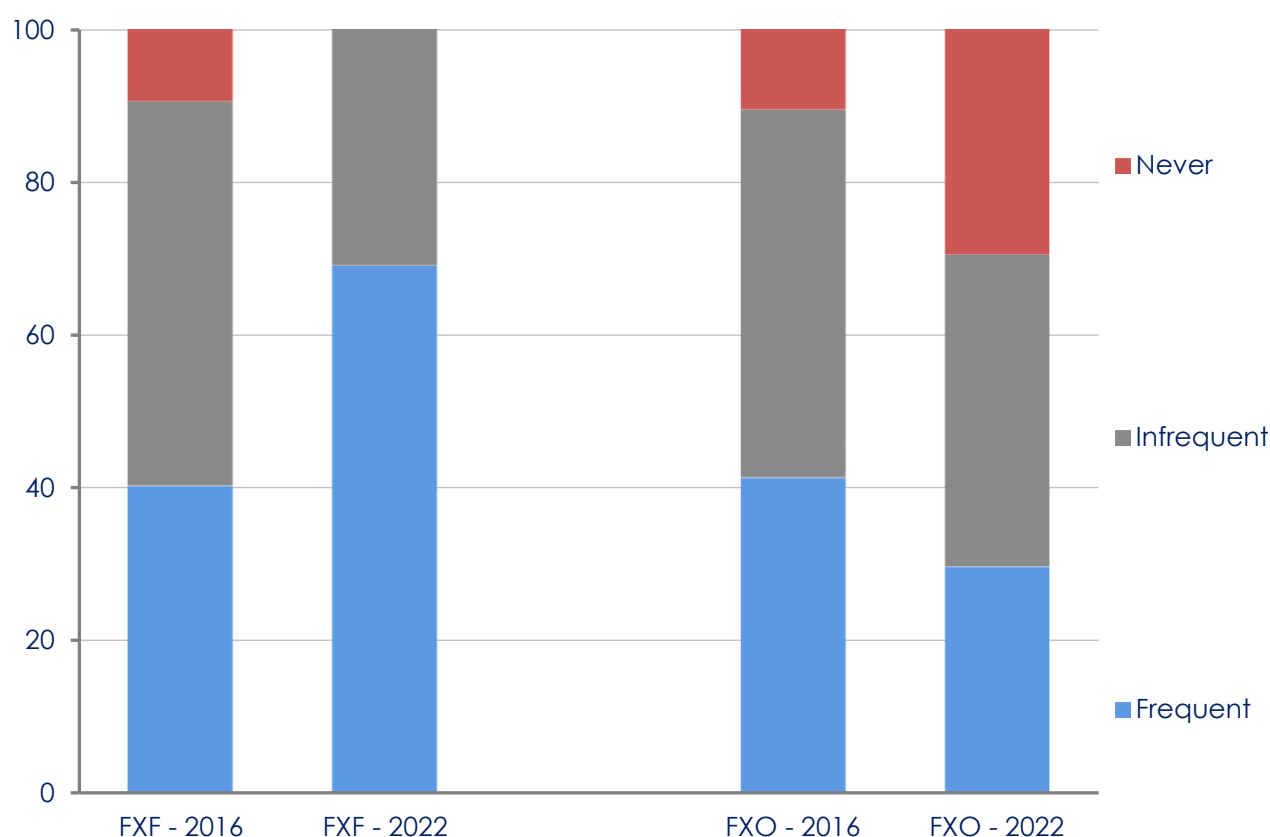
Citi, BofA and HSBC compete closely for Forward FX relationship share leadership as each bank recorded exceptionally strong year-on-year growth rates. Wells Fargo, Citi and HSBC account for over one in two FX Options relationships cumulatively also.

“As CFOs and treasurers adapt to the new interest rate and inflationary environment, incumbent Spot and risk product leaders are set to face growing competition, placing enormous pressure on customer retention” commented East & Partners Global Head of Markets Analysis, Martin Smith.

“While wallet share continues to slide sharply as customers multibank for FX, the research outlines key elements FX customers will both switch provider for and allocate greater execution to existing providers” Smith added.

## Lower Commercial FX Forwards (FXF) vs FX Options (FXO) Usage

% of Total



Source: East & Partners United States Business FX Program – December 2022 (N: 2,224)

### About the research:

The eighteenth consecutive round of six-monthly demand-side assessments of the [United States \(US\) Business Foreign Exchange \(FX\) market](#) closely monitors competitive positioning in the world's most high growth, highly competitive and active FX hub.

The analysis is based on direct interviews with 2,209 CFOs and treasurers with active FX arrangements in place. A screen is applied to only capture importers and exporters nationwide.

The relative performance, behaviour and product engagement of businesses with their bank or FX provider is quantified across product engagement, market share, wallet share and customer satisfaction performance metrics.

East's demand side analysis provides coverage of Spot FX, Forward FX and FX Options product categories and the program corresponds reporting in other markets including France, the United Kingdom, Canada, Hong Kong, Singapore, Philippines, Malaysia, Australia and New Zealand.

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#### Customer Segments:

Micro Business	US\$1-5 million annual business turnover
Small to Medium Enterprises (SME)	US\$5-20 million annual business turnover
Lower Commercial	US\$20-100 million annual business turnover

## 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.

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