
39.1237
35.74
Dollar
26.59
Yen
33.827
5.2405
Dollar
4.5338
Dollar
25.50014
.8995
8.45673
Ringitt
.5283

Foreign Exchange Risk
Mitigate the risk of fluctuating foreign currency rates.

Foreign Exchange Risk

U.S. exporters will want to mitigate the risk of fluctuating foreign currency rates. Since buyers and sellers in different countries rarely use the same currency, a U.S. exporter and the foreign buyer will need to agree on what will be used for payment in a transaction. This could be the currency of either party or even a third, mutually acceptable currency.?

> Download Video: Foreign Exchange Risk Management: How to Get Paid in Foreign Currencies **[15MB]**

One of the risks associated with foreign trade is the uncertainty of future exchange rates. The?relative values of the two currencies could change between the time the deal is concluded and?the time payment is received. If you are not properly protected, a devaluation or depreciation of?the foreign currency could cause you to lose money. For example, if the buyer has agreed to pay?€500,000 for a shipment, and the Euro is valued at $0.85, you would expect to receive $425,000. If?the Euro later decreased in value to $0.84, payment under the new rate would be only $420,000,?meaning a loss of $5,000 for you. If the foreign currency increased in value, however, you would?get a windfall in extra profits. Nonetheless, most exporters are not interested in speculating on?foreign exchange fluctuations and prefer to avoid risks.

One of the simplest ways to avoid the risks associated with fluctuations in exchange rates is to?quote prices and require payment in U.S. dollars. Then both the burden of exchanging currencies?and the risk are placed on the buyer. However, such an approach may result in losing export?opportunities to competitors who are willing to accommodate their foreign buyers by selling in?the counterparties' local currencies. This approach could also result in nonpayment by?a foreign buyer who finds it impossible to meet agreed-upon obligations owing to a?significant devaluation of his local currency against the U.S. dollar.

While losses due to?nonpayment could be covered by export credit insurance, such "what-if" protection is?meaningless if export opportunities are lost in the first place because of a "payment?in U.S. dollars only" policy. Selling in foreign currencies, if foreign exchange risk is?successfully managed or hedged, can be a viable option for U.S. exporters who wish?to enter the global marketplace and remain competitive there.

Currency Convertibility Tips

- Be aware of any problems with currency convertibility. Not all?currencies are freely or quickly converted into U.S. dollars. Fortunately, the U.S. dollar?is widely accepted as an international trading currency, and U.S. companies can often?secure payment in dollars.
- If the buyer asks to make payment in a foreign?currency, you should consult an international?banker before negotiating the sales contract. Banks can offer advice on any foreign exchange?risks associated with a particular currency. The most direct method of hedging foreign?exchange risk is a forward contract, which?enables the exporter to sell a set amount of?foreign currency at a pre-agreed exchange rate?with a delivery date from 3 days to 1 year into?the future.

- If you’re able to do business?entirely in U.S. dollars, you may be able to avoid many of the?difficulties and issues related?to currency conversion. For more on foreign exchange risk, view Chapter 14 of the U.S. government’s Trade Finance Guide.