

# Foreign Exchange, International Payments and Trade



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# Agenda

- Foreign Exchange
  - Market
  - Volatility
  - Hedging
- International Payments
  - Fintech
  - Business Email Compromise
- Trade
  - Doc collection, Letters of Credit

# Foreign Exchange

- The exchange of one currency for another
- Global market where currencies are traded 24 hours a day, 5.5 days a week
- Daily volume \$5T
- “Forex” and “FX”
- Spot=1 to 2 days to settle (wire transfer)
- Forward=3 days or more to settle
- A forward is made up of the spot rate plus or minus forward points. Forward points are derived from the interest rates in the two countries and the time period.



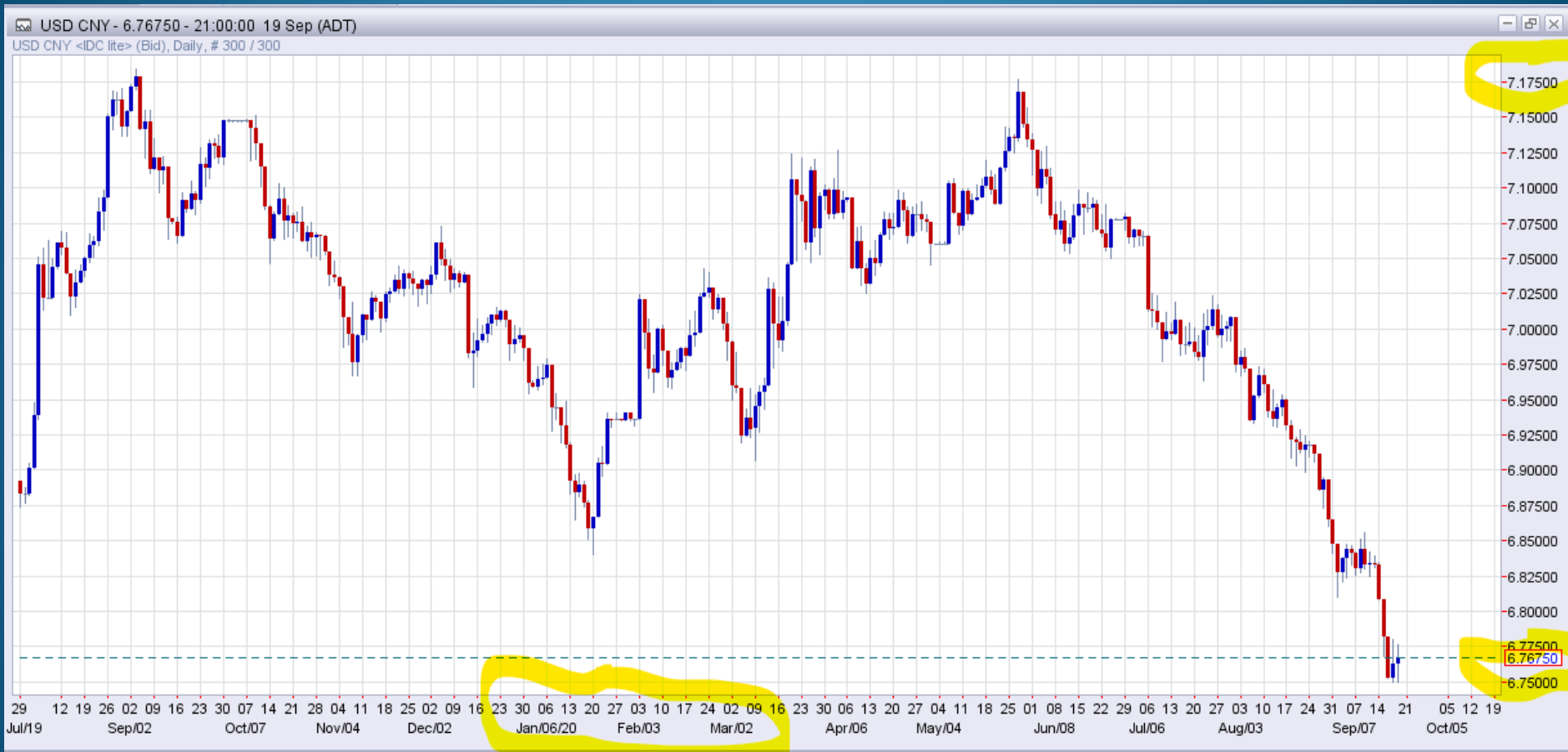
# EUR: 1.07 to 1.20



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# CNY: 6.75 to 7.17



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# Foreign Exchange Hedging

## Case Study:

A cranberry grower, purchased a piece of equipment from Germany for 2MM Euro to be paid over a 12 month period. The day they signed the purchase order the Euro was trading at 1.18 or USD 2,360,000.

To protect the cost of the equipment, they decided to buy Euro in advance/lock in the exchange rate.

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# Foreign Exchange Hedging cont.

Payment schedule for 2,000,000 Euro

Nov 2020: 800,000 Euro

March 2021: 500,000 Euro

June 2021: 200,000 Euro

Nov 2021: 500,000 Euro

Spot: 1.18

If Spot moved to 1.21, the cost would increase to  
**\$2,420,000 (\$60k more)**

If Spot moved to 1.16, the cost would decrease to  
**\$2,320,000 (\$40k less)**

# Payments

- Banks have struggled with multiple systems that don't talk to each other
- Consumers and Business customers are expecting faster everything
- Fintech companies, such as Plaid and Transferwise are partnering with banks to help
- Jan 2020, Visa paid \$5.3B to purchase Plaid. Plaid develops financial services APIs.





# Business Email Compromise

AARP reported that “BEC attacks targeted more than 30,700 organizations in the first quarter of 2020, according to security company Symantec. The FBI says fraudsters are exploiting disruptions in business operations caused by the coronavirus outbreak to perpetrate new variations on the scam, in some cases hijacking Paycheck Protection Program loans to small businesses.”

\$1.4B in 2018 in wire fraud related losses

# International Trade

- Changes due to Covid-19
- Importers and Exporters are carefully managing cash flow and concerns of getting paid
- Concerns about working with a new buyer/seller
- LC's, Doc Collection



# International Trade

## Before Covid-19:

Company A imports goods from India

Terms 60 days

## After Covid-19:

Exporter in India now wants to be paid before goods are picked up at the port. Company A sets up Import Documentary Collection.