Managing your foreign exchange exposure

Economic policies that influence exchange rates

- Interest rate changes
- Supply and demand

Economic factors that influence exchange rates

- Increases in inflation
- Strong economic growth
- Rising debt levels in Canada

If the Canadian dollar rises – or falls – will your business be in a better or worse condition? How will you protect your profits?

At CIBC, we can help you lower your business's risk when exchange rates fluctuate beyond your control.

The basics of foreign exchange

As a small business owner you have options for payment when importing, for example, US$50,000 of clothing from the United States to Canada from a supplier who wants payment in 30 days.

Lock in a rate today for 30 days from now

You could take out the uncertainty of currency movements and lock in a rate today – for payment to your supplier in 30 days.

For example, if US$1 is equal to CAD$1.30, and you lock that in, you'd pay CAD$65,000 regardless of where the market is in 30 days time.

This option is great for firming up your price and managing your foreign exchange exposure.

Wait for the payment due date to lock in rate

Alternatively, you could wait for 30 days to take a chance on whether the rate will be better than today's rate – however, it could be worse.

If the exchange rate in 30 days for US$1 is equal to CAD$1.40, you'll have to pay CAD$70,000.

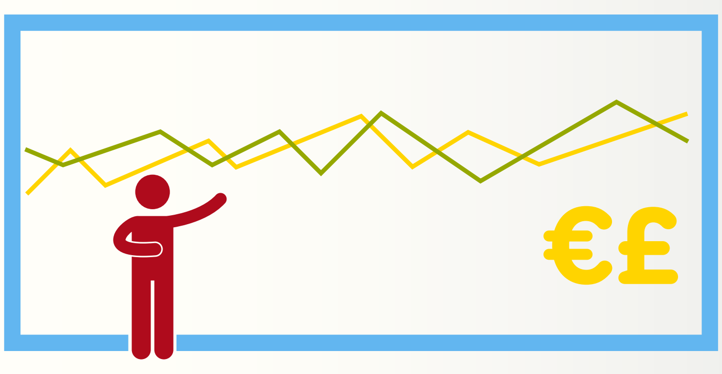
However, if the exchange rate in 30 days for US$1 is equal to CAD$1.20, you'll have to pay CAD $60,000.

By hedging, you would know your rate upfront and build it into cashflows and projections.

Foreign exchange methods

First, decide what methods you'll use to manage foreign exchange movements and assign these methods to each market you trade with. Note down your targeted rates or goals for exchanging currencies.

Follow through with your strategy and then review it as market conditions change.



Do you need to take action to protect your profits ?

	YES	NO
Does your business import or export?	☐	☐
Do you pay or get paid in foreign currency?	☐	☐
Will significant currency movements impact your profits?	☐	☐

Actions to hedge and protect against potential loss of income:

Consider setting up forward contracts to lock in fixed exchange rates, create an emergency reserve fund, and monitor real-time foreign exchange rates with 'FX Online @ CIBC'.

60 Over a period of 60 days, changes of more than 5% in the value of the Canadian dollar relative to the US dollar are common.*

Nearly 7 out of 10 small business owners haven't taken steps to protect their businesses against currency fluctuations.**

Managing the risk of currency fluctuations

If you import or export, your business will want to remove as much risk as possible to avoid losing money. Entering financial contracts that protect against expected or unexpected changes in currency exchange rates is known as hedging.

Setting up a forward contract to lock in a fixed exchange rate and settling at a future point in time is a way to hedge your foreign exchange exposure. Forward contracts can be used for any expiry date within one year and with any amount of foreign currency.

Out of major business sectors, manufacturing (53%) and wholesale/retail businesses (44%) are the most concerned about the falling Canadian dollar.**

Tips to prepare for fluctuations in the Canadian dollar

- Include a strategy to manage currency movements in your business plan.
- Monitor your plan on an ongoing basis and make adjustments if you need to.
- Build flexibility into your business model by providing access to an emergency reserve fund.

37% of small business owners say the recent decline in the CAD$ against the US$ has had a negative impact on their business.***

Why hedge against exchange rate movements

Foreign exchange fluctuations can present a risk to your business. Unpredictable exchange rates can affect your profitability, so it's important to think ahead and plan accordingly to protect your business against this risk.

Prepare thoroughly

- Do you have a budget rate?
- Could exchange rate movements impact your margins?
- Are your accounts payable and receivable terms longer than a few weeks?

CAD$0.94 **CAD$1.31**

During a recent five-year period, the range of fluctuation for US$1 was between CAD$0.94 and CAD$1.31.

How CIBC can help

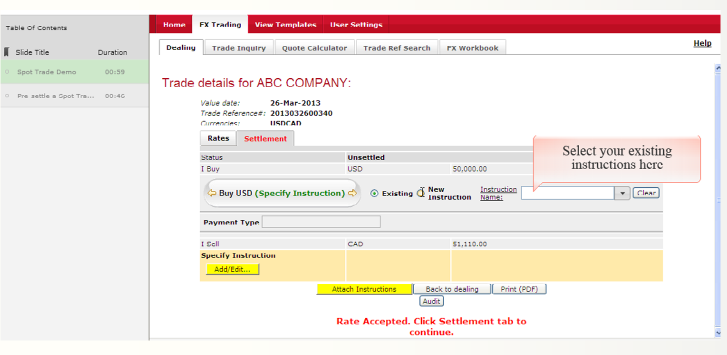
FX Online @ CIBC will give you the tools you need to carry out trades in foreign exchange swiftly. At FX Online, you can:

- Monitor real-time foreign exchange rates.
- Access all the trade details you'll need in one location.
- Create more than one trading template for periodic payments.
- Receive an audit trail on your transactions.
- Get email notifications of trades, outstanding payments and confirmations.

As an additional benefit, you'll also have access to the trading floor for market commentary and order taking.

Next steps

- For more information, take a look at FX Online @ CIBC.
- See the online demonstration about spot trading with CIBC.
- Get in contact with us via email, fax or phone.



Appendix
* Export Development Canada – Managing foreign exchange risk white paper.
** CIBC Poll: Declining Canadian dollar has small business owners worried.
***CIBC Poll: Canadian small businesses grappling with weaker loonie.

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