

Managing Foreign Exchange Exposures in Volatile Markets: Tips and Strategies for Travel Pros

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Presented by:

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Introduction

Foreign Exchange: A necessary evil?

Travel professionals are on the front lines of the foreign exchange markets. The effects of volatility and uncertainty when planning international trips for clients can directly impact the bottom line.

Whether you're a US tour operator pricing an international trip six or more months in advance, a receptive operator greeting international students, an agent or group leader, or a destination manager, foreign exchange could feel like a necessary evil...

But it doesn't have to be murky or non-transparent.

Help is at hand

Working with a trusted business partner, instead of managing your own global payments, can help you save time, money and reduce frustration.

At AFEX, that's what we do best

Our global banking relationships allow us to seamlessly process payments in nearly all major and exotic currencies across the globe. So rather than needing your own global banking network, you can use ours, and employ our expertise to navigate the world of global payments.

About AFEX



Established in 1979 and headquartered in California, AFEX is licensed and regulated in all jurisdictions in which we operate.

We can handle every aspect of a client's foreign payment needs, from risk consultation to transaction execution

Trading more than \$30 billion annually for 35,000+ active commercial and individual clients in over 180 countries

Retail desks in New York and Beverly Hills should clients need cash for travel

SYTA and AFEX: Our partnership

- Preferential exchange rates & **ZERO** wire fees on international transactions
- Safe, secure, and fast delivery of funds
- Strategic support from an FX consultant specializing in travel – market updates, transaction execution, and approaches to manage risk in volatile currency markets
- Simple application process with no minimum balance or frequency of trading required
- Cash for travel from retail locations in New York and Beverly Hills – and we'll deliver!

RESOURCES designed for
EDUCATORS

Agenda

- About the Market
- Risk and volatility
- (EUR/USD; USD/CAD; GBP/USD)
- Implications for a strong dollar
- Cases and Strategies:
 - Planning in advance
 - Paying in local currencies
 - Annual / seasonal review
 - Entering new markets



Understanding foreign exchange

Unpredictable, non-transparent rates

- Published rates = what banks charge each other
- Rates paid are higher and not always clear

Transaction fees

- Bank fees can add up
- Incoming wire fees can be hidden costs

Sending / receiving multiple currencies

- Most US banks convert incoming foreign payments immediately to USD
- Opening a foreign bank account can be costly



The foreign exchange market

- **The largest, most liquid: \$5 trillion annually, operating 24/7**
 - Not centrally regulated
 - An “imperfect” market:
 - Different reasons for participation
- **Exchange rates change constantly**
- **Volatility**
 - The movement of one currency up or down versus others—has increased as the global economic picture becomes more complex



Factors affecting exchange rates

- **Low inflation = more buying power**
- **Higher interest rates mean better returns**
- **Balance of payments & terms of trade:**
 - Imports vs. exports
 - Tariffs and taxes
- **Government debt / money supply**
- **Political & economic stability**
- **Speculation & modern trading methods**



Business impacts

➤ Effects of volatility

- Cost of products, materials or services
- Value of assets or businesses held overseas
- Translation of overseas revenues
- Overall profit margins

➤ Markets prefer certainty

- Recent unexpected events have delivered shocks
- Some will reverberate for years to come



Recent risk events

Brexit: The British Pound drops 17% against the US Dollar after the June 2016 referendum

“Unwinding” is slated to begin this month

Donald Trump’s surprise election lifts USD

Strength continues with expected interest rate increases and better economic fundamentals

Elections in Europe: 2017

France in April; Germany in September, Italy this summer?

Commodity currencies struggle

Canada, Australia, South Africa, New Zealand weaker due to lower commodity prices; the Mexican Peso has recovered some losses

Shock and awe: Britain votes LEAVE on EU Referendum

- June 23, 2016. The British Public shock the world, voting to leave the European Union...but it soon becomes clear that the EXIT campaign has no real plan in place.
- Through months of internal and external negotiation, Britain announces that it will trigger Article 50, beginning the unwinding from the EU, on March 29.
- To be addressed:
 - Visa requirements to and from Europe
 - New rules for Britain's low-cost airlines
 - Fewer EU workers for British travel and tourism jobs
 - British workers abroad
- Scotland is mulling another independence referendum



President Trump: Impact on the global markets

- Dramatic posturing and tweeting are part of his negotiation style:
 - Ask for the sun and moon; settle for the stars
- The new administration still needs to address:
 - Immigration and border policies
 - America's place in the global theatre – economic, diplomatic, and military
 - Trump Doctrine is still hazy
- US economy seems to be on a firm foundation, leading to continued USD strength:
 - First Fed rate increase in March; two more expected this year
 - Expectation of roll-back of regulations and infrastructure investment



EUR/USD



GBP/USD



GBP/USD [9] - 1.23538 - 14:24:12 20 Mar (PDT)
GBP/USD <NetDania rt> (Bid), Monthly, # 300 / 300



USD/CAD



2017 and beyond: considerations

Strong US Dollar

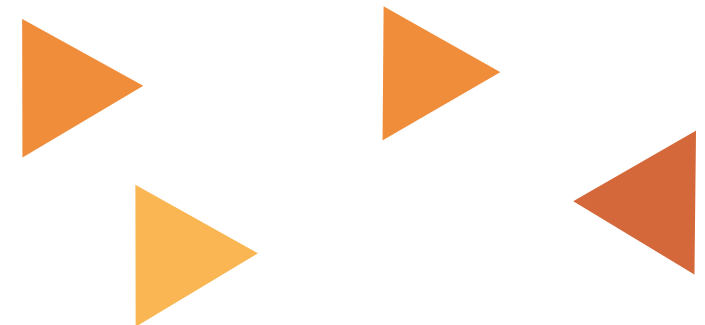
- A boon for US operators sending groups abroad, and a challenge for receptive operators

Outbound travel from the US

- More affordable
 - Increase in group size
 - Open new destinations
 - Longer stays or additional stops

Inbound travel to the US

- More expensive
 - Smaller groups or shorter stays
 - Visa challenges
 - Negative perception of US



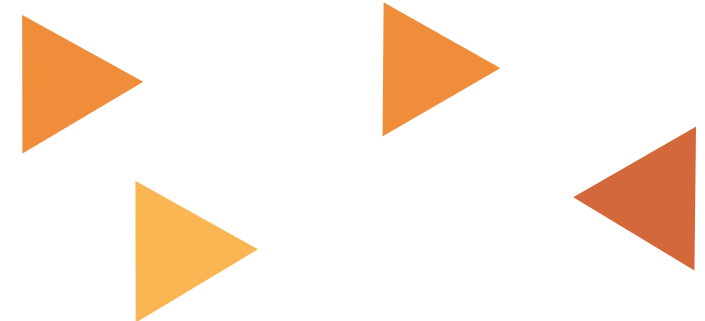
2017 and beyond: considerations

Travel restrictions and visa requirements

- Stricter visa requirements may deter incoming students
- Policies may reshape international travel
 - Leading to longer lead times for planning
- Some cities are aggressively addressing this challenge

It makes sense to plan ahead

- Festivals, events, milestones will still occur
- Travel is an educational component for many students



FX risk management solutions

There are several tools and strategies that will help you better manage exposure

- Regular market updates from a trusted source
- Forward contracts or currency options to minimize exposure
- Rate orders to time trades
- Invoices in local currencies when available
- Seasonal reviews of budget rates, costs, and processes to aid in forward planning



Case 1: An art history trip to Italy

A US Tour operator is sending 80 university students to Italy for a three-week art history course. He works with a trusted supplier who prices the trip at €4,000 per student, or €320,000. With his budget rate of 1.13 EUR/USD, his base cost per student is \$4,520, or \$361,600 for the group.

When the EUR starts to fall, his FX provider calls him and he books a rate order for the €320,000 at 1.08.

When the Euro hits 1.08, he buys the €320,000 he needs to pay the supplier, and saves \$16,000.

	EUR	USD
Cost of trip	€ 320,000	\$361,600
Budgeted	1.13	1.13
Rate order	1.08	1.08
Actual cost	€ 320,000	\$345,600
Savings		\$16,000

Case 2: French students coming to the US

A receptive tour operator is planning an English immersion course for 80 French students. He costs the trip at \$6,000 per student. Ordinarily he bills the trip in USD; this time, the organizer asks to pay in Euros.

Using a budget rate of 1.13 EUR/USD, he prices the trip at €5,309 per student.

When it comes time for the organizer to make the payment, the EUR has dropped to 1.08 and the operator sustains a loss, lowering his profit on the trip.

	EUR	USD
Cost of trip	€ 424,780	\$480,000
Budgeted	1.13	1.13
Rate at time of payment	1.08	1.08
Receives	€ 424,780	\$458,762
Loss		-\$21,238

Had he bought a forward contract when he agreed the price, he could have protected more of his profit. In short, he would have contracted to sell € 424,780 at 1.13, and as the EUR payments came in, he'd have been able to convert them to USD at the higher rate.

Personalized, consultative approach

Free FX risk consultation

Our travel industry specialists will create a comprehensive plan to help you manage foreign exchange exposure--based on your goals--enabling you to take advantage of FX opportunities.

Our payment and FX solutions

With a clear understanding of your needs and goals, we can execute a plan, implementing the perfect risk management solutions for your business.

Seasonal reviews

FX management is an important component of your business strategy

Looking back

- Volume, exchange rates and fees
- Timing of transactions
- Year-on-year changes: seasonalities; new destinations
- Actual performance against budgeted rates

Looking ahead

- New market opportunities:
 - New destinations, partnerships
 - New customers in the pipeline
- Reset budget rates if needed
- Tactics to reduce risk and cost; protect margins

About David Topalian



David Topalian is a Senior Portfolio Manager at AFEX headquarters in Los Angeles. He specializes in helping global businesses transact optimally in the foreign currency markets. Through his work at AFEX, he's developed expertise across a wide range of businesses.

David's more than 12 years of financial services experience, gained in the US and in the UK, spans accounting, banking, investment management and FX risk management. His experience informs his approach: he is a resource for his clients, and an extension of their internal finance team.

Through strategic, consultative relationships, David works with his clients to build risk management strategies tailored to their unique exposures, while providing fast, reliable and cost-effective global payments to vendors.

David lives in Los Angeles and is an avid footballer.

Thank you!

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April 6, 2017

12:00 PM EDT

New Member Orientation Webinar

April 11, 2017

12:00 PM EDT

SYTA Annual Conference Preview Webinar

May 2, 2017

3:00 PM EDT

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