

# SME FX HEDGING MADE EASY WITH CIMB

ANY company involved with import and export knows that drastic forex fluctuations and price uncertainties are not good for business. This is especially true for small and medium enterprises (SMEs), which often face cash flow and margin challenges.

Such challenges are more pronounced when the foreign exchange market experiences a lot of volatility in tandem with the vagaries of the domestic and global economy, as well as geopolitical developments.

For example, the range of the ringgit was almost 9% in 2018 (3.86 – 4.20), indicating a high volatility. This volatility is a function of US interest rate movements, the US-China trade war, geopolitical risks in the Middle East which influences oil prices, and the mixed pace of global economic growth. On the domestic front, potential changes in Malaysia's policy rate, growth rate, inflation rate and foreign interest in our capital markets could also influence the movement of the ringgit.

For an SME that is importing goods from overseas, when the US dollar to ringgit rate swings from 4.00 to 4.40, this directly translates into a 10% increase in costs. SMEs will then need to consider between possibly passing down the cost to their end-clients, or taking a hit on their profit margins.

So, the question is, are there smarter ways for SMEs to better protect their capital flow and hedge against forex fluctuations?

## 1. Leverage of Bank Negara Malaysia's Foreign Exchange Administration framework

Acknowledging the issue, Bank Negara Malaysia (BNM) recently announced further liberalisation of the Foreign Exchange Administration framework in late March this year, which provides greater hedging flexibility for SMEs and enables them to better manage their FX risk.

One of the changes made to the framework includes allowing SMEs with net import obligations, to now receive payment in foreign currency from other resident exporters for domestic trade in goods and services. In other words, an SME who receives US dollars from their overseas exports can then use those same dollars to pay another resident SME, without having to convert the funds to ringgit. This reduces the need for unnecessary conversions and will ultimately minimise FX risk.

Another change from BNM is extending the hedging tenor of FX currency obligations to 12 months, with residents able to obtain approval from the bank for further extensions. This allows SMEs to now lock in their FX rates for longer tenors, to have better control over their costs and profits.

## 2. Sign up for a hedging facility

SMEs can also consider a hedging facility, which enables companies to hedge and lock in favourable FX rates and use those rates when payables and receivables are due, thus eliminating worries on FX market prices fluctuations.

One example is CIMB Bank Bhd's FX hedging facility specifically catered to the SME segment, with a simplified, hassle-free application process.

The no-collateral hedging facility is made available to all SMEs registered in Malaysia that have been in business operation for a minimum of three years. To apply, SMEs only need to provide their directors' identification at the nearest CIMB Bank branch, and once the one-off FX agreement with CIMB Bank is signed, SMEs can proceed to use this tool to better manage FX risk.

## 3. Tap into forex specialists' knowledge to better understand the market and manage FX risk

Having access to a forex specialist could also help make hedging initiatives much easier. SMEs with hedging facilities at CIMB Bank will also have access to its dedicated relationship managers and FX specialists, who will be able to offer advice and expertise on currency movements and possible hedging opportunities.

In conclusion, fluctuations in the foreign exchange market can make or break the cashflow and margin of a company, especially an SME. Although there is no way to fully control it, there is a way to manage it via FX hedging. SMEs must be more aware of the risks associated with foreign exchange fluctuations, and to know that with CIMB Bank's support, they can take appropriate steps in managing those exposures.

In conjunction with SME Thought Leadership 2019, CIMB Bank Bhd is running a five-part series of thought leadership articles to educate SMEs on best practices and leveraging financial products and services. SME Thought Leadership 2019 is organised by Star Media Group and presented by CIMB Bank.