

U.S. DOLLAR RALLY: GONE TOO FAR OR JUST GETTING STARTED?

Presented by:

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Daniel P. Flanigan, Managing Partner

Dan is a twenty-three (23) year banking and financial services executive. Dan joined Bannockburn Global Forex as a managing partner in charge of business development in May 2016. Bannockburn Global Forex is a capital markets trading firm specializing in currency advisory and execution services. They help companies doing business internationally mitigate their currency risks. His firm is purely client-oriented and their basic model is to combine expert counsel and pre-trade analytics with low-cost execution. Their mission is to be the most trusted foreign exchange partner in the market.

Prior to joining Bannockburn Global Forex, Flanigan worked at Fifth Third Bank as a Managing Director of their Foreign Exchange(FX)/Capital Markets group for the commercial division. He was tasked with growing the overall footprint of their FX desk. Under his leadership the desk grew from mostly a regional player to include a more national/international focus.

A native of Cincinnati, Dan received a Bachelor of Business Administration in Marketing, Management and International Business from the University of Cincinnati and a Masters of Business Administration from Xavier University. Dan and his wife Beth have been married for 17 years and have three wonderful children.

ROBERT B. BRADLEY MANAGING PARTNER



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Robert B. Bradley, Managing Partner, FX Trading and Research

Mr. Bradley graduated from St. Bonaventure University with a degree in Business Administration and with a focus on economics and finance. His first job after graduation was at Barclays Bank International (BCI) on Wall Street where he was in the back office of the foreign exchange and money markets trading area. This position was his first in what would become a nearly 30 year career in foreign exchange. Mr. Bradley then moved to Skandinaviska Enskilda (SE) Banken, also in Manhattan, where he was initially involved in the managing of the foreign exchange back office before moving on to a position on the foreign exchange trading desk. There, Mr. Bradley held various roles over his 11 years at SE beginning with position clerk, junior spot trader for FX and money markets, chief spot dealer for foreign exchange, and finally a role in Global Derivative Sales. In 1996, Mr. Bradley moved to Cincinnati, OH to become a Director of FX with 5/3 Bancorp where he was initially involved in sales and marketing before moving into a management role in trading and risk management. Bob has been with Bannockburn from its inception in 2009 and works in the FX trading and research area.

SEAN McGRORY SHAREHOLDER



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Sean McGrory, Shareholder

Sean McGrory leads client engagements by providing accounting, audit and business advisory services to commercial organizations, including those with family or closely-held ownership, international operations or ownership, and private equity investors. His areas of emphasis include budgeting and forecasting, strategic planning, international transactions and reporting, and financing.

Sean gained the unique perspective of a business owner when he founded his own medical services company, and continued to gain entrepreneurial experience when he provided consulting services to a start-up surgical center company. Later he served for four years as a CFO in private industry. Sean's management insight translates into excellent client service. He is uniquely positioned to truly understand and meet the needs of the owners, CEOs, and CFOs who rely on his counsel.

Sean's over 20-year career includes more than a decade with an international accounting firm, where he spent two years in London as their U.S. Liaison Partner for Europe.



TODAY'S AGENDA

- Introduction
- Foreign Exchange Marketplace Overview
- Foreign Exchange Products
- Pricing and Risks
- Market Update / Trends
- Case Studies
- Questions

BANNOCKBURN GLOBAL FOREX, LLC – KEY FACTS

COMPANY OVERVIEW

- Bannockburn is a capital markets trading firm specializing in currency advisory and execution services
- Provide transactional, hedging, and analytical FX products to corporate and institutional clients both private and public
- Main focus: Public & closely held companies, private equity firms, community banks, attorneys, CPA's
- Mission: To be the most trusted foreign exchange partner for companies doing business internationally.

KEY COMPANY FACTS

Headquarters

- Cincinnati, Ohio

Founded

- 2009

Partners

- 22

Quick Stats

- 1,000+ clients
- 70,000+ secure transactions
- \$20+ BLN in volume

FOREIGN EXCHANGE MARKETPLACE



- Daily turnover is \$7.0 trillion USD
- 24-hour market:
Opens Sunday in New Zealand and closes Friday in New York
- Most liquid market in the world:
Volume exceeds all global equity and fixed income transactions combined on a daily basis
- Key trading centers:
Sydney, Tokyo, Frankfurt, London, and New York
- Most commonly traded currencies:
USD, EUR, JPY, GBP, CHF, CAD, AUD, NZD, MXN (Cross Trades: EURGBP, EURJPY)
- Foreign Exchange is an “Over-the-Counter”(OTC) market:
Private negotiations between two parties (few rules – be careful – buyer/seller **beware!**)

FOREIGN EXCHANGE SOLUTIONS

The foreign exchange market is the largest, most liquid in the world. Daily turnover is over \$7.0 trillion USD.

Foreign Exchange is an “Over-the-Counter”(OTC) market, using private negotiations for contracts.

- For immediate payment in one currency in exchange for another, usually to send foreign currency payables or convert foreign receivables (simple wire transactions or payments)
- Typical market settlement in two business days but can be done same day depending on currency and time of the transaction

SPOT CONTRACTS

- Locks in a price today for a payment due on a future date or range of dates, providing a hedge against currency fluctuation
- Forward prices are determined by an adjustment made to the spot price based on the interest rate differential between the two currencies

FORWARD CONTRACTS

- Simultaneous buying and selling of the same currency for one date against another future date. For example, if a company has a Euro receivable in 3 months but a Euro payable in 6 months
- A swap allows for guaranteed upfront exchange rates on both dates for both transactions

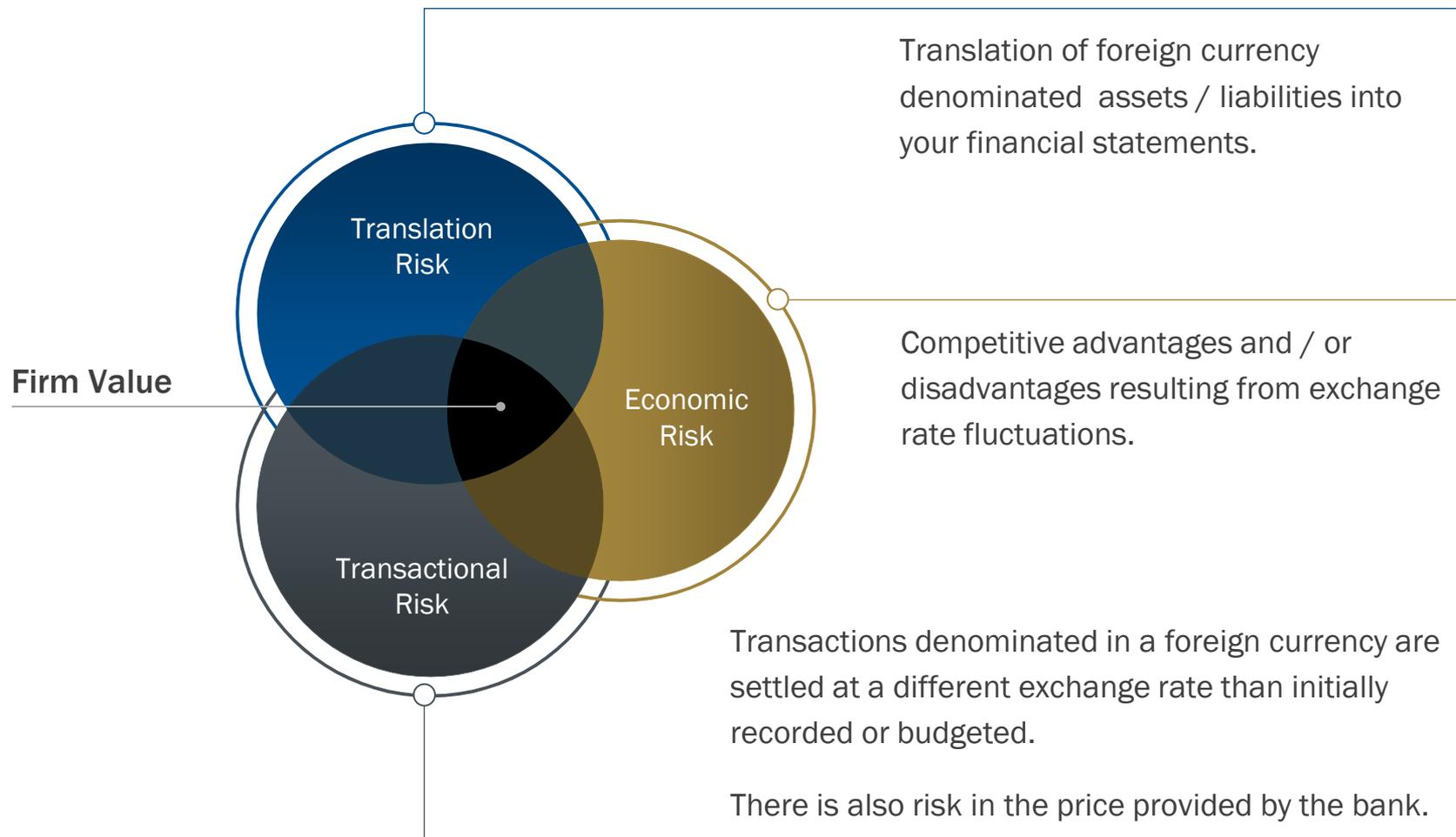
CURRENCY SWAPS

- To hedge foreign currency risk in emerging markets where no traditional forward market exists, e.g., China and Brazil
- NDFs are synthetic hedges that are net settled in USD at the maturity of the contract and ‘no delivery’ of the forex occurs

NON-DELIVERABLE FORWARDS

Bannockburn Global Forex, LLC is a market maker in the global currency market with trading capabilities in all major, minor, and exotic currency pairs.

FOREIGN EXCHANGE RISKS



WHAT'S A COMPANY TO DO?

How do I protect my bottom line?

- Implementing a hedging strategy (doesn't always mean hedging – are your margins 3% or 60%?)
- Use budget rates to compare how the bottom line is doing based on those budget rates (insulate and possibly increase margins) – have a plan
- Insure you pricing is efficient
- Best execution (orders)
- Consider market conditions and macro economic environment (entry point)

FORWARD CONTRACT PRICING

Forward contracts are the most commonly used hedging tool.

The “all-in” forward rate of exchange includes two components:

Example:

One year EUR/USD forward to purchase 500,000 EUR is \$1.0975

Spot = \$1.0750

One year EUR/USD forward points = + .0225

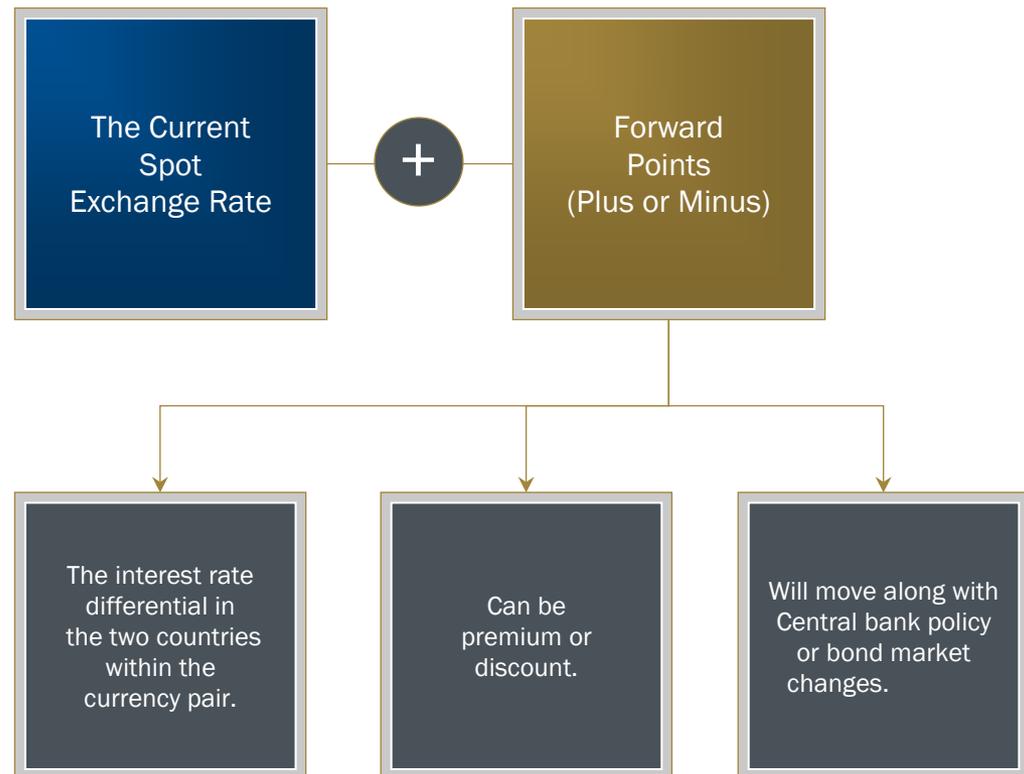
$\$1.0750 + .0225 = \1.0975

In one year 500,000 EUR will be wired at a rate of \$1.0975 and will cost USD of \$548,750.

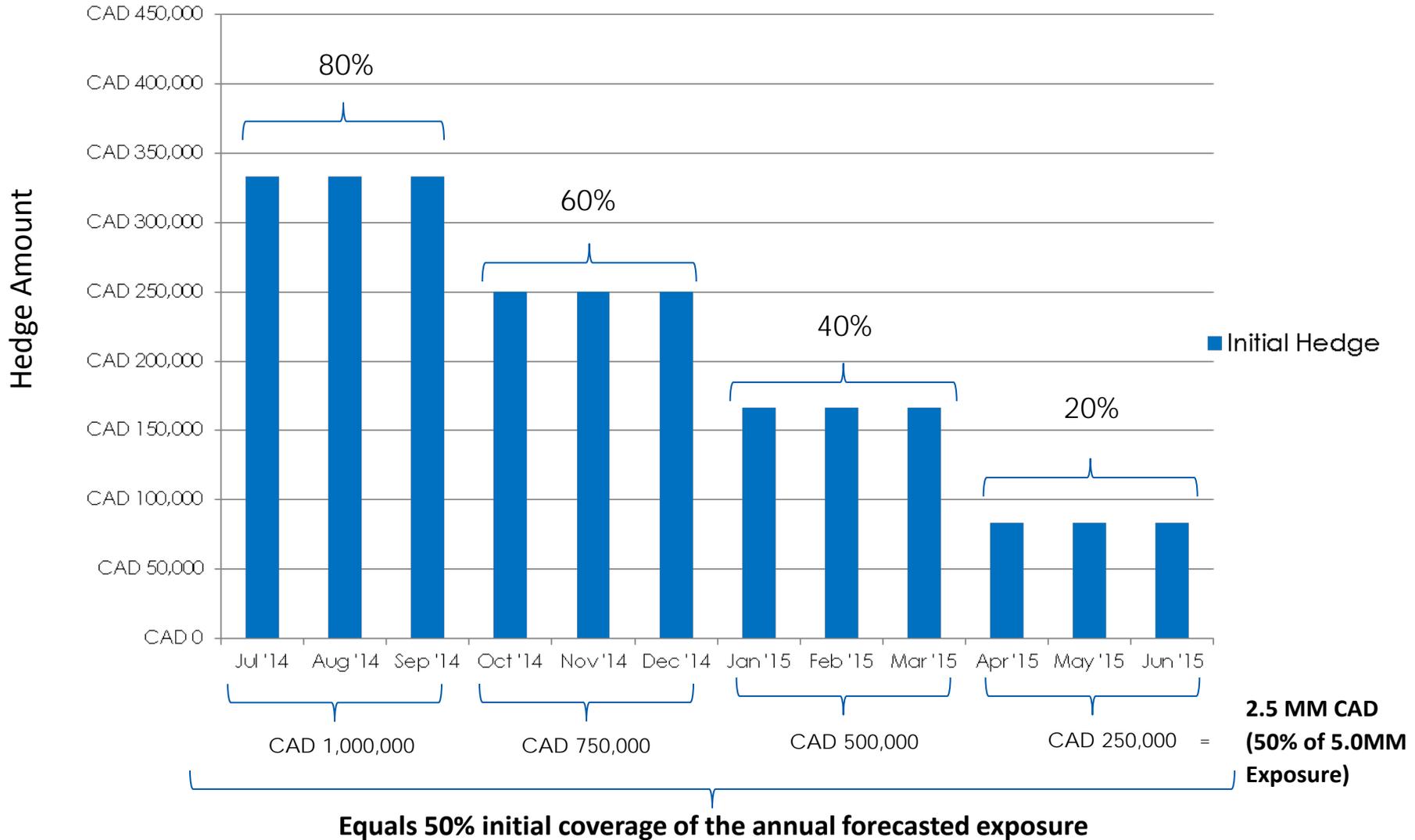
What happens if the EUR goes to 1.2000 ...

And the exposure wasn't hedged? Cost = \$600,000

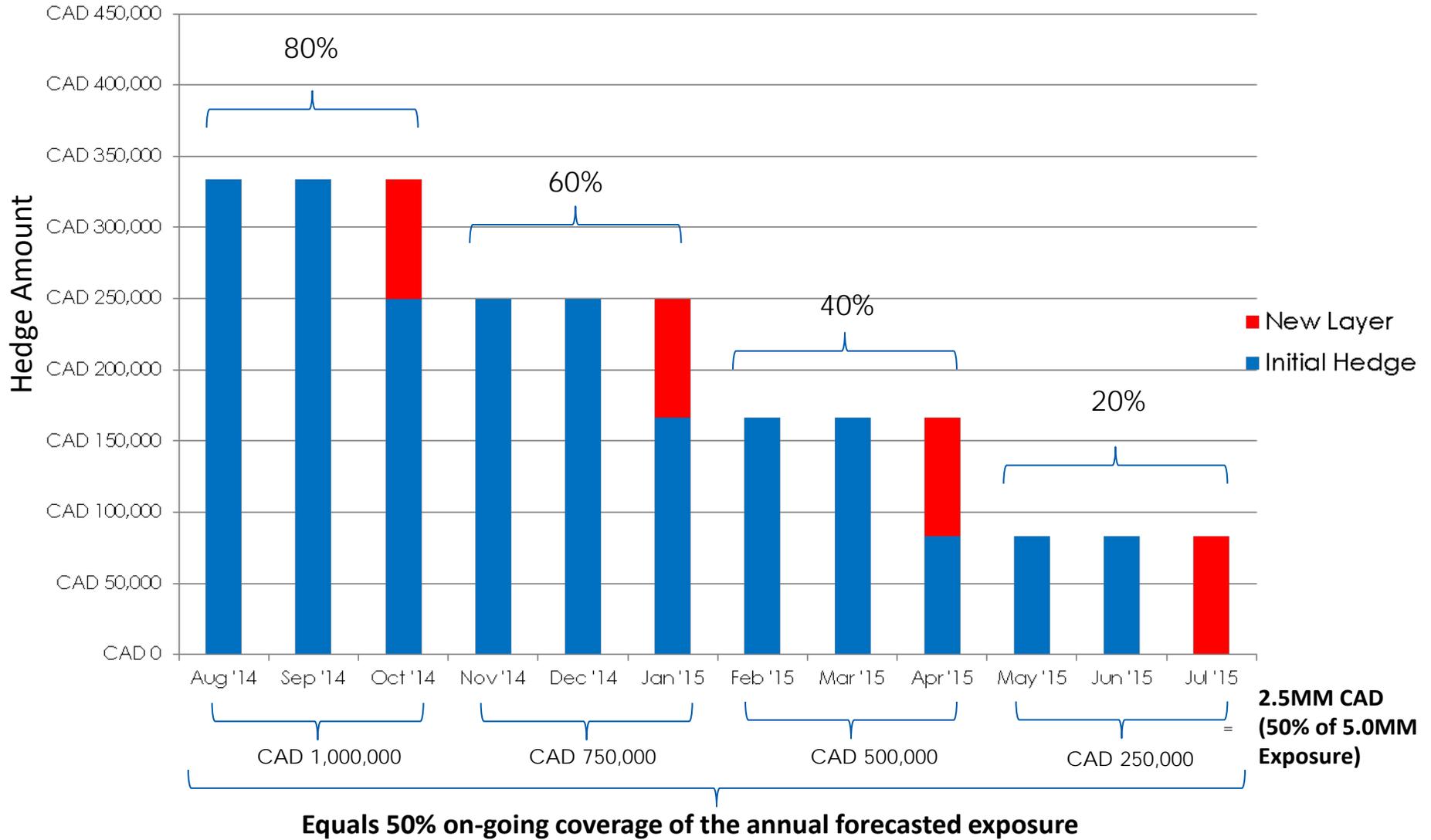
Additional cost = \$51,250



ROLLING HEDGE PROGRAM EXAMPLE FOR ABC COMPANY



ON-GOING ROLL FORWARD AND LAYERING (CAN BE DONE MONTHLY OR QUARTERLY)



MARKET TRENDS



FX Volatility is the new NORM – WHY?

Political Uncertainty – think Brexit!

Global economies turning positive

Central Bank interest rate policy changing (big reason for USD strength)

U.S. Economic Data



US GDP ANNUAL GROWTH RATE



US INFLATION RATE



U.S. Economic Data



US ISM PURCHASING MANAGERS INDEX (PMI)



SOURCE: WWW.TRADINGECONOMICS.COM | INSTITUTE FOR SUPPLY MANAGEMENT

US GOVERNMENT BOND 10Y

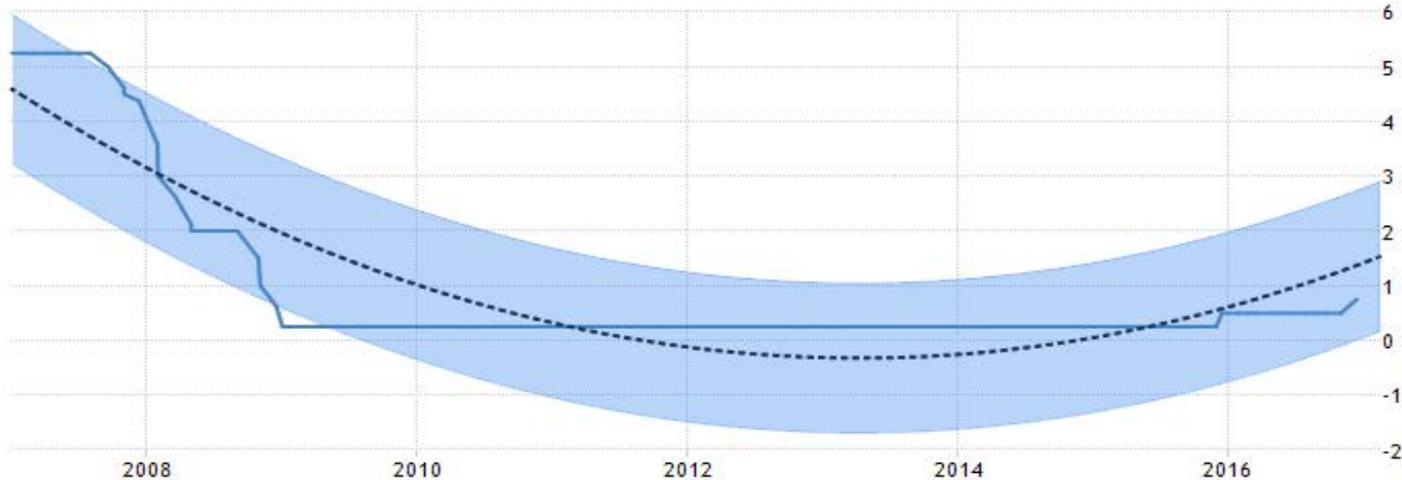


SOURCE: WWW.TRADINGECONOMICS.COM | U.S. DEPARTMENT OF THE TREASURY

U.S. INTEREST RATE EXPECTATIONS



US FED FUNDS RATE



SOURCE: WWW.TRADINGECONOMICS.COM | FEDERAL RESERVE

Forecast	Actual	Q1/17	Q2/17	Q3/17	Q4/17	2020	Unit
Interest Rate	0.75	1	1.25	1.25	1.5	2.25	Percent

EURO ZONE ECONOMIC DATA

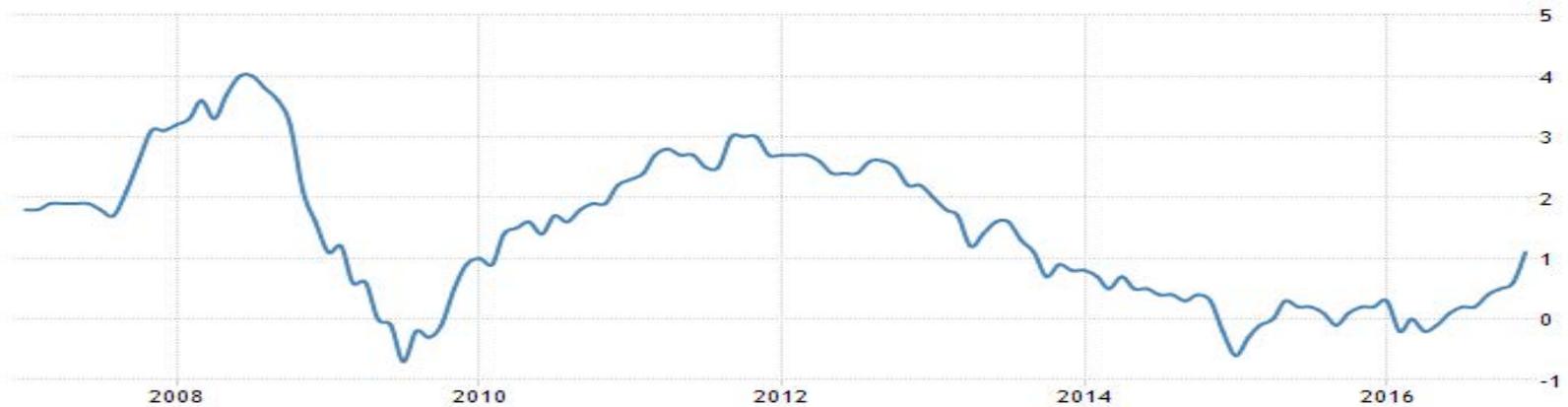


EU GDP ANNUAL GROWTH RATE



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

EU INFLATION RATE



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

EURO ZONE INTEREST RATES

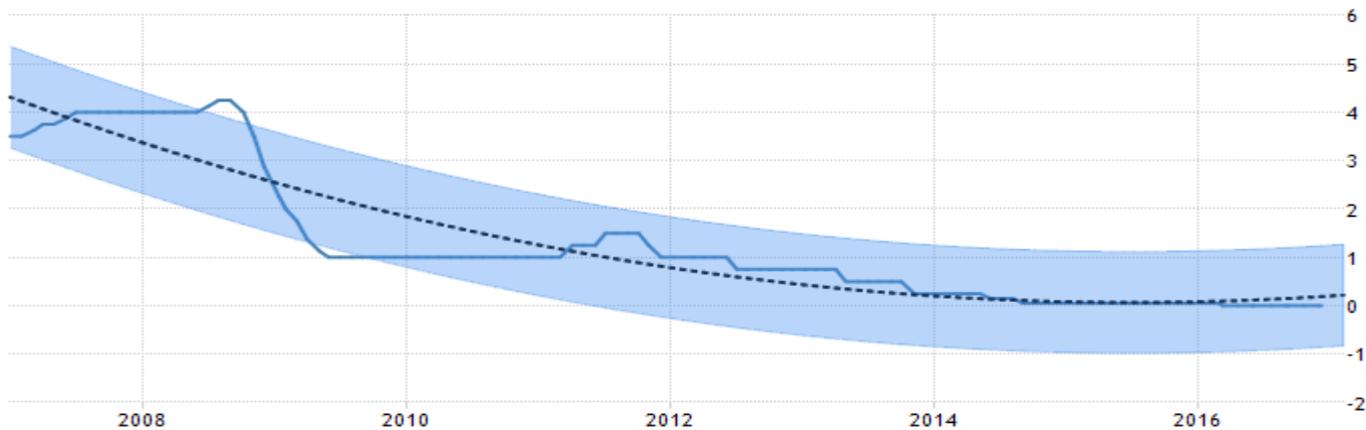


GERMANY GOVERNMENT BOND 10Y



SOURCE: WWW.TRADINGECONOMICS.COM | GERMANY DEPARTMENT OF TREASURY

EUROPEAN CENTRAL BANK | BENCHMARK RATE



SOURCE: WWW.TRADINGECONOMICS.COM | EUROPEAN CENTRAL BANK

JAPAN ECONOMIC DATA



JAPAN GDP ANNUAL GROWTH RATE



SOURCE: WWW.TRADINGECONOMICS.COM | CABINET OFFICE, JAPAN

JAPAN INFLATION RATE



SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF INTERNAL AFFAIRS & COMMUNICATIONS

JAPAN INTEREST RATES

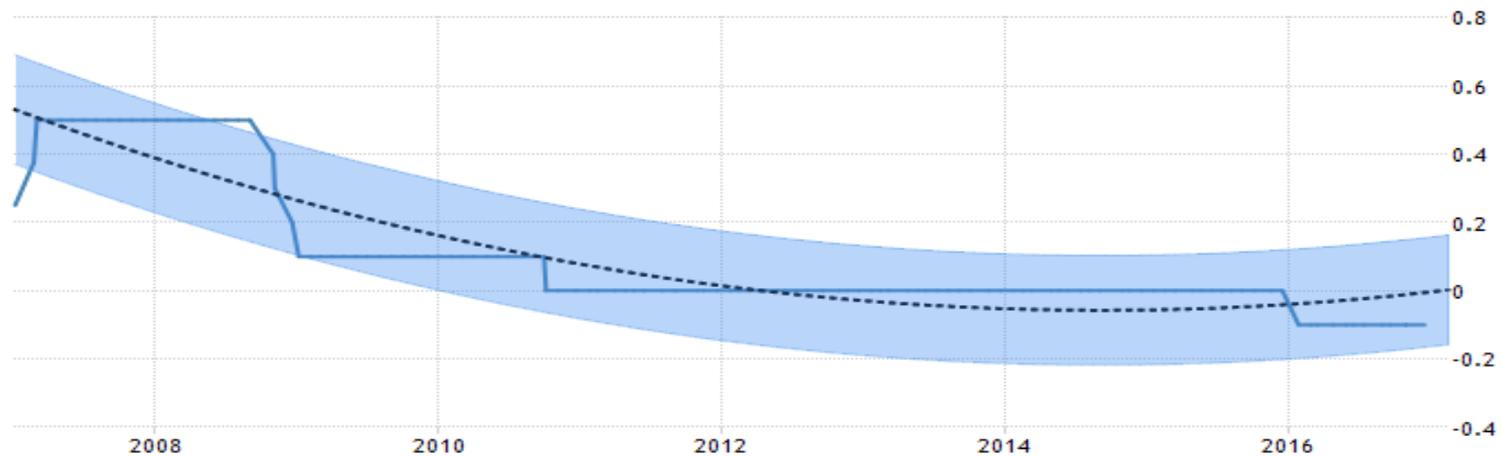


JAPAN GOVERNMENT BOND 10Y



SOURCE: WWW.TRADINGECONOMICS.COM | MINISTRY OF FINANCE JAPAN

JAPAN INTEREST RATE

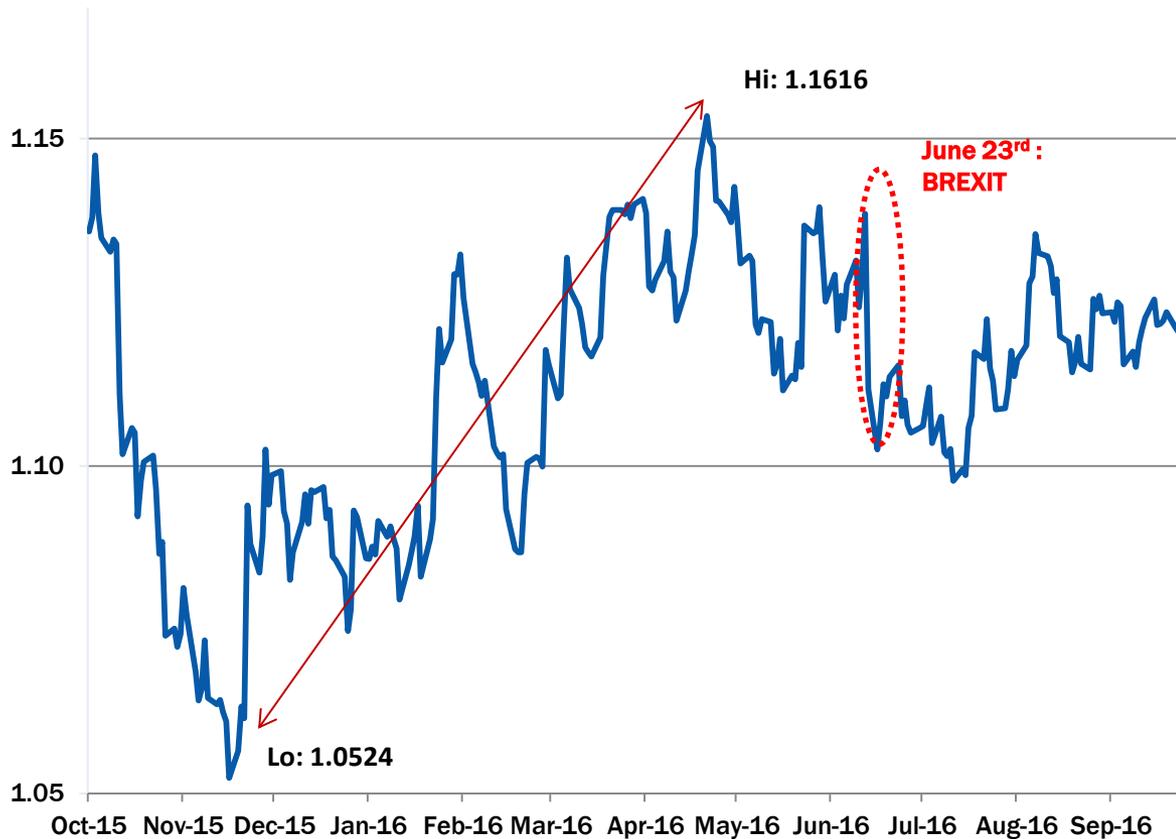


SOURCE: WWW.TRADINGECONOMICS.COM | BANK OF JAPAN

FX VOLATILITY IS THE NEW NORM (EUR)



EUR/USD: last 12-months



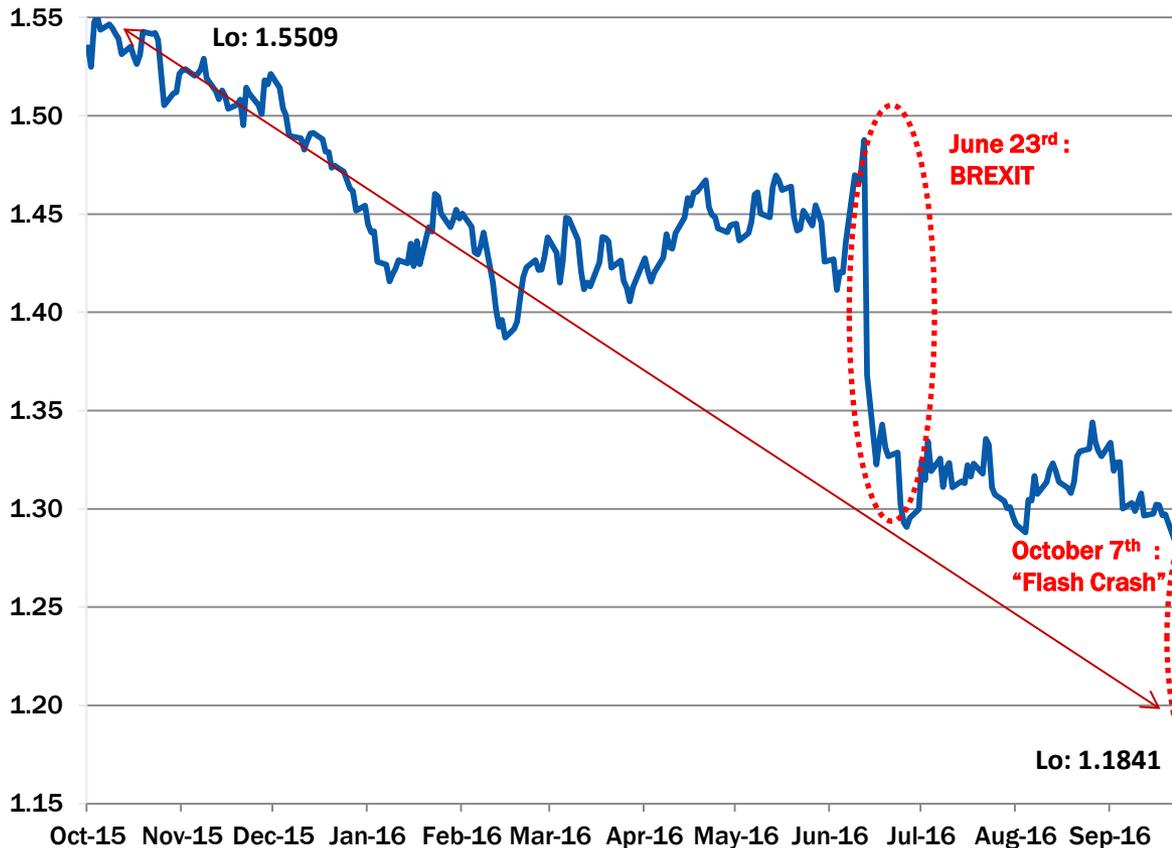
Trading Ranges:

- Last 12-months
= 1092 pips (1.1616 – 1.0524)
= **9% movement**
- Annual Average over last 5-years
= 1520 pips
= **13% movement**
- Monthly Average over last 5-years
= 496 pips
= **4% movement**
- Brexit outcome (June 24th)
= 515 pips (1.1428 – 1.0913)
= **5% swing in ONE DAY!**

FX VOLATILITY IS THE NEW NORM (GBP)



GBP/USD: last 12-months



Trading Ranges:

- Last 12-months = 3668 pips (1.5509 – 1.1841) = **24% movement**
- Annual Average over last 5-years = 1760 pips = **14% movement**
- Monthly Average over last 5-years = 560 pips = **4% movement**
- Brexit outcome (June 24th) = 1789 pips (1.5018 – 1.3229) = **12% swing in ONE DAY!**
- "Flash Crash" (October 7th) = 775 pips (1.2616 – 1.1841) = **6% swing in a few minutes!**

POST ELECTION RESULTS - USD STRENGTH



GRAB

DXY Currency 95 Compare 96 Actions- 97 Edit - Intraday Price Chart
 60 Day(s) 09/13/201 12/05/201 18:30 - 17:30 Trade USD



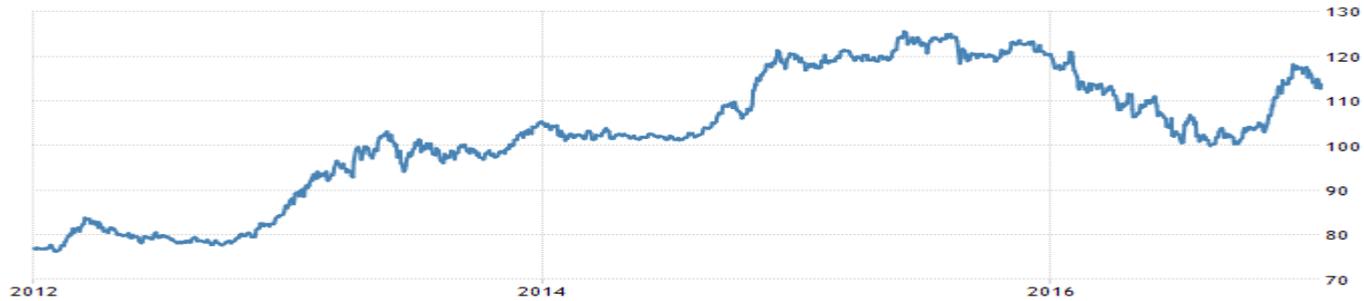
CURRENCY CHARTS



EURUSD EXCHANGE RATE

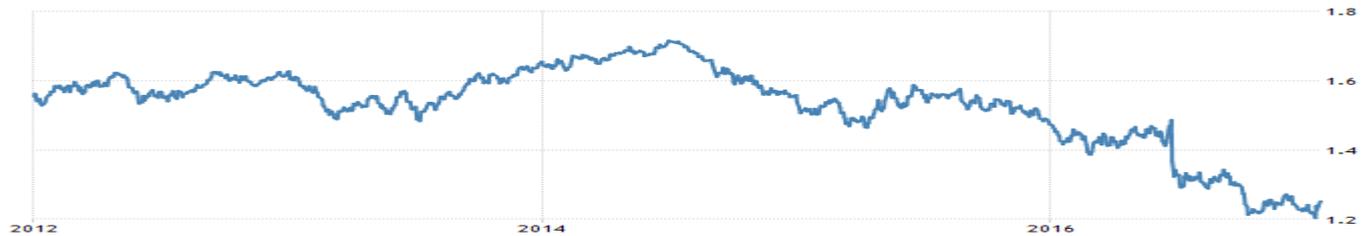


JAPANESE YEN



SOURCE: WWW.TRADINGECONOMICS.COM | OTC INTERBANK

BRITISH POUND



SOURCE: WWW.TRADINGECONOMICS.COM | OTC INTERBANK

CLIENT CASE STUDY – TO HEDGE OR NOT TO HEDGE...



Exchange Rate Risk – Sourcing in Non USD Denominated Currency

A U.S. Crane Company agrees to purchase a new crane from Germany on September 14, 2012 for EUR 1,500,000.

EUR/USD exchange rate on September 14, 2012 = 1.2990 and the company pays 10% down (150,000 EUR x 1.2990 = \$194,850)

The crane will be received November 14, 2012 and the company will pay the net due in 60 days (January 14, 2013)

The company did not recognize exchange rate risk or decided to roll the dice.

CLIENT CASE STUDY – TO HEDGE OR NOT TO HEDGE...



November 14, 2012 – Crane is delivered to customer and balance of EUR 1,350,000 is due in 60 days. The current exchange rate on November 14th is 1.2725 (USD equivalent of \$1,717,875). Compared to September rate of 1.2990 there was a “gain” of \$35,775. **The company decided to “roll the dice” and see how much lower it would go.**

January 14, 2013 the net EUR 1,350,000 must be paid. The exchange rate at time of execution is 1.3340. EUR 1,350,000 @ 1.3340 = USD \$1,800,900!

Exchange rate loss relative to initial execution rate of 1.2990 = (\$47,250)

Exchange rate loss relative to rate when crane was received (1.2725) = (\$83,025)

Failure to recognize foreign exchange rate risk or deciding to “roll the dice”, in this case was costly.

SAMPLE TRANSACTIONS

U.S. company buying inventory from Japanese vendor:

- Company buys \$250,000 USD worth of spare parts monthly – pays dollars and thereby putting currency risk onto that vendor.
- Company approaches supplier and asks if they would prefer to receive their home currency (JPY) given the strong USD.
- Supplier begins billing company in both currencies and allows them to pick which currency to pay.
- Company sees approximately 5% savings by paying them in JPY
- Company utilizes both Spot and Forward contracts to pay vendor, save money and reduce risk.

CONCLUSIONS:

- Lack of transparency can add significant cost.
- Don't be afraid to ask questions (or for help).
- You don't need to be a FX expert – but you need to work with someone you trust.
- Market Volatility is the new norm.
- Spot and Forward contracts are the most used FX products.

QUESTIONS?

CONTACT US

Please contact us with questions
or for more information:

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THANK YOU!

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