

# Internationalization & Export Management (IEM 6CFU)

## Financial risks of Internationalization

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# Financial risks

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Risks connected to the variability of market process of financial activities  
(exchange rates, commodity prices, interest rates)



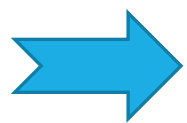
It's a two way risk

- Firms need to protect from unfavourable variation
- But also to consider the opportunity cost of any hedging
- The aim is transforming unpredictable events in calculated risks

# Currency risks

## Three main forms:

- **Transaction risk:** exchange variation impacts the debts owed to and by companies in foreign currency;
- **Translation risk:** The variation in the exchange rate also impacts the actual countervalue of the financial statement items related to transactions in foreign currency;
- **Economic risk:** the exchange variation may impact the company's competitive position in a given market



Countervalue effect  
Currency flow effect

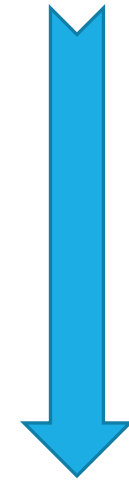
# Hedging instruments

## Traditional instruments

- a. Invoicing in reporting currency
- b. Insurance
- c. Currency basket
- d. the establishment of an exchange cap and/or an exchange floor

## Derivatives

- a. Currency future
- b. Currency option
- c. Currency swap



What is the variation feared by European importers?

What is the variation feared by the European exporters?

# Price risks

It's connected to the volatility of commodity prices

## Three main forms:

- **Transaction risk:** possibility that an increase (decrease) in the commodities' quotations might force the buyer (seller) to pay (collect) an amount greater (less) than that estimated
- **Replacement risk:** possibility that an increase in prices might shift demand towards replacement products;
- **Competitive risk:** possibility that the increase (decrease) in prices might be to the disadvantage of a company but not its competitors that purchased (sold) at more affordable prices.

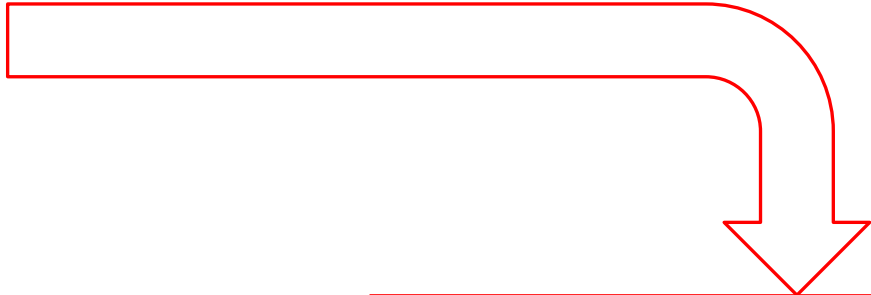
# Hedging instruments

## Real instruments

- a. Agreement at a fix price
- b. speculative inventory

## Financial instruments

- a. Cap and floor
- b. Collar
- c. Commodity option
- d. Commodity future
- e. ....



What are the factors affecting the possibility to develop speculative inventory?