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FX & The Toy Industry

What We Know

Our understanding of the Toy Industry is that most Toy companies import their products from overseas. From our research and conversation with the Toy industry most companies have exposure to AUD/USD or AUD/EUR (70% USD 30% EUR).
As this is a requirement for most businesses it is important to consider risk management around exchange fluctuations and how a FX strategy can improve the profitability of your business.

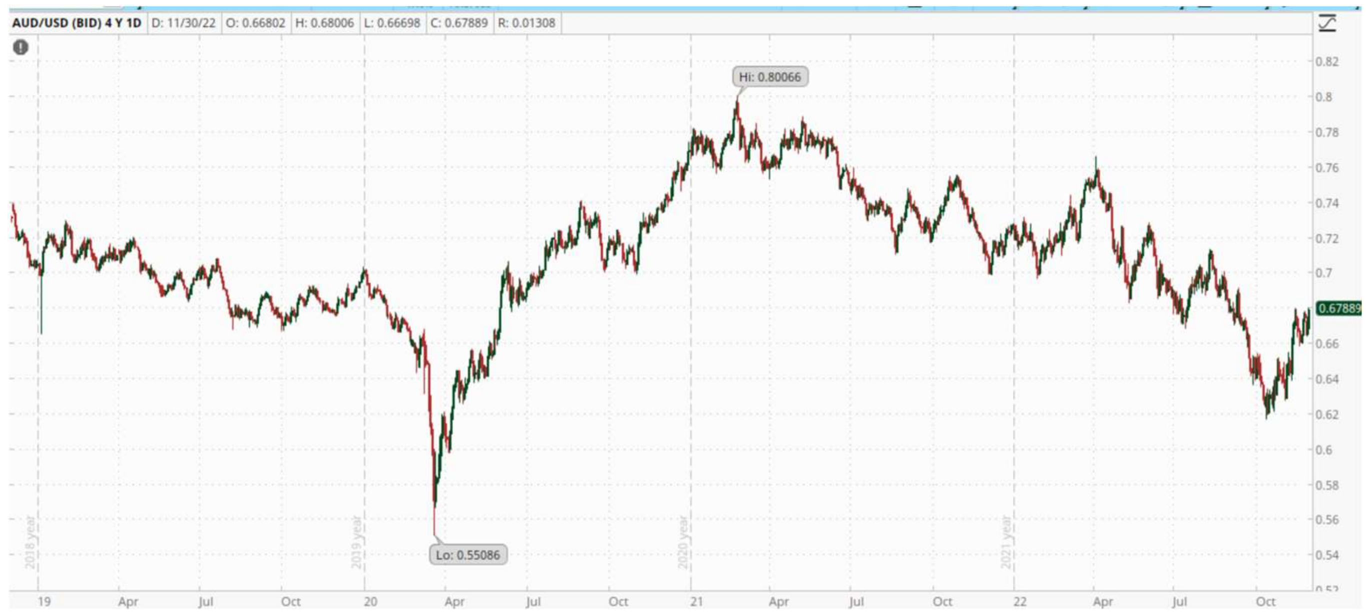
The FX Market volatility has been unprecedented this year with all major currencies affected by the first rising interest rate environment in 40 years. AUD/USD has witnessed a 19% swing from a high of .76605 in April all the way down to .61697.

AUD/EUR has also witnessed volatility after the geopolitical risks and energy crisis in the Eurozone. Reaching a high of .70 and trading as low as .6175 a 12% move from top to bottom.

This volatility makes a significant impact to cost of goods sold and the overall profitability of the toy industry.

The Past

The Visual



The Past

The last 12 Months

Whilst AUD has struggled this year, it has been an interesting year for the FX Markets with the US Dollar Index(a basket of currencies measured against the USD) reaching a 20 year high. JPY, GBP & EUR have led the decrease after all 3 currencies reached 20-year lows against USD.

Interest rates have been a major driver of this movement with Japan, England and the Eurozone have been unable to increase interest rates without creating economic unrest locally. Due to this they have fallen behind with 2-3% interest rate divergences between each country.

The Present

Current Situation

Today AUD/USD is sitting at .67 after a move up from .616 over the past month. The current lockdown in China along with the protests have prevented AUD moving higher against USD. China is Australia's biggest trading partner and any political or economical issues with China reduce the demand for Australian dollar.

We currently see a big divergence in interest rates with America hiking interest rates at a much faster rate than Australia. Currently the Federal Funds Rate is between 3.75%-4%. Comparatively the RBA has set the cash rate at 2.85% with expectations that the RBA may hold off on further interest rate hikes over the next couple of months.

The difference in the interest rates means that the supply of USD is at lower rate than the supply of AUD. This disparity drives up price of USD comparatively to AUD.

The Future

Outlook

Whilst we don't have a crystal ball the primary mover of the currency markets will be interest rates and market sentiment.

America will likely remain ahead of Australia in its interest rate hiking cycle unless there is a pivot from the Federal Reserve. There have been discussions around whether the Federal Reserve will slash interest rates once inflation subsides which will be a positive for AUD.

The equity markets have tumbled this year creating fear and encouraged investors to move into USD as it is a safe-haven currency. Bear markets typically last 9-12 months and we are nearing the end of that cycle. If the stock market can rebound, it will bolster AUD and push all major currencies higher against USD.

The Future

What Will Drive
The Market in 2023

Interest Rates
Inflation
Commodities
Geo-Political Tensions (War)
Covid
China

Foreign Exchange Risk Management Solutions

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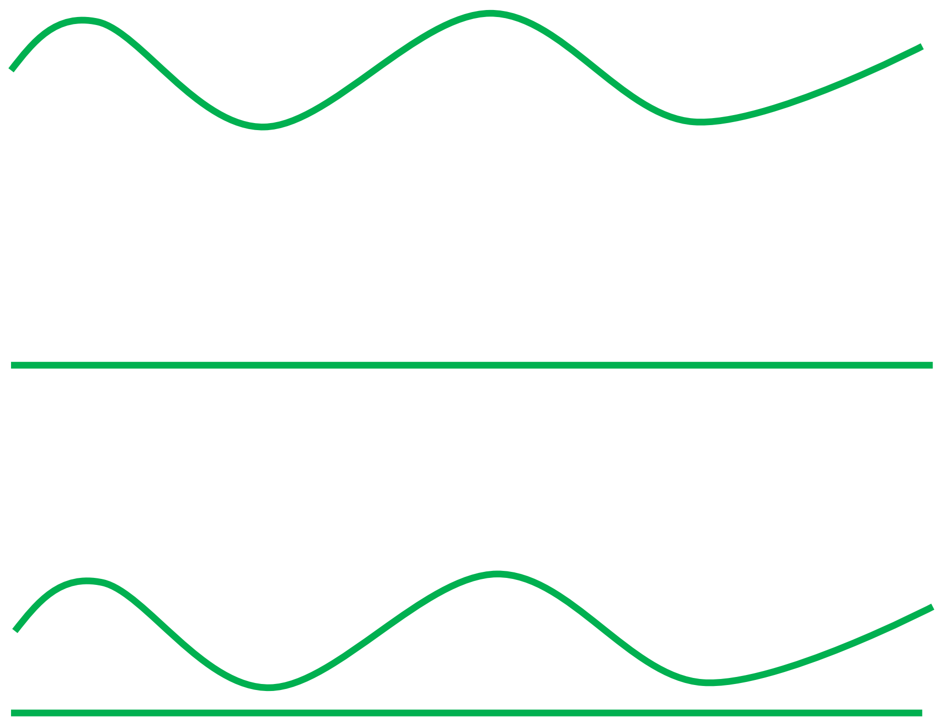


Spot

Participation
No protection

Forward

Protection
No Participation

Options

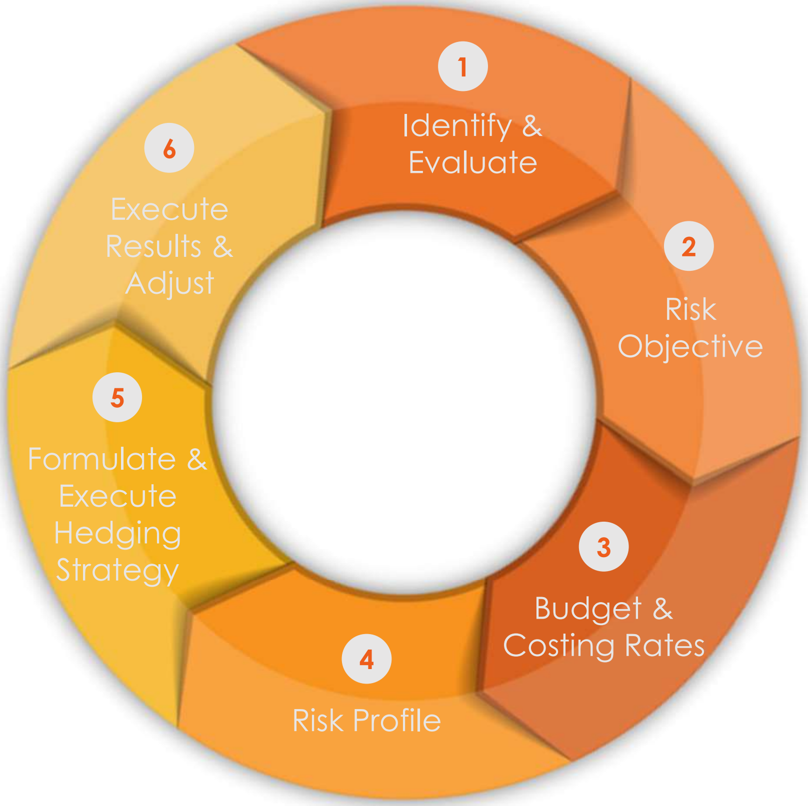
Participation
& Protection

Your Risk Management Profile

Our Understanding

Risk Management Approach

Our Process



1. Identify & Evaluate: Company business objectives, Industry (maturity, growth / consolidation), Supplier / client terms (pricing flexibility / cash conversion cycle / credit provisions), client goals / products (margins, market share, competitiveness)
2. Risk Objective: Assess client's risk management goals (outperform spot market, achieve budget levels, protect certainty of cash flow)
3. Budget & Costing Rates: Review client budget levels, how often its reviewed and the duration of pricing schedule
4. Risk Profile: Discuss client's appetite for risk, maturity relative to market conditions, size of foreign currency exposure & match to client product margins, cash flow, budget levels and risk objectives
5. Formulate & Execute Hedging Strategy: Evaluate economic date and market conditions, product set and technical levels to execute from
6. Evaluate Results & Adjust: Measure success of strategy relative to risk objective, spot market performance & budget levels

How We Support You

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Your Company

David Grant
National Sales Director

- Additional point of contact
- Continued feedback and measuring impact
- Ongoing review of the relationship

Patrick Satorie
Account Executive

- Key point of contact for all trade-related calls.
- Managing the Onboarding journey
- Ensuring seamless transition to Navigate
- Continued feedback and measuring impact

Mick Carmody
Head of Treasury

- Portfolio & position analysis.
- Pricing & structure creation
- Daily MTM review and trade performance.
- Ongoing review of impact.

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