Half of Corporate America losing BILLIONS in Forex for no reason

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Here's the big irony for the markets. As we explain in Splitting Pennies book, Forex is the largest market in the world and the least understood. Corporate America certainly doesn't understand Forex. Well, according to this report, about 50% do:

> ***Forty-eight percent of nonfinancial companies listed on U.S. stock exchanges remained exposed to volatility in foreign exchange rates****, commodity prices and interest rates in 2012 because they did not hedge them, according to a new study by Chatham Financial. The interest-rate and currency risk adviser studied a sample of 1,075 companies ranging from $500 million to $20 billion in revenue. The nearly half that did not use financial instruments to hedge their exposures demurred despite the threat the risks posed to both the balance sheets and reported earnings (see chart at bottom). "That was surprising, knowing the pressure senior management teams and treasury feel around identifying ways to reduce risk to factors within their control so business can focus on other areas," Amol Dhargalkar, managing director for corporate advisory at Chatham, says.*

Many analysts have pointed to the fact that the new excuse of "Currency Headwinds" (accountant code word for "Don't Understand Forex") to define earnings in 2016:

> *Companies that do business outside of the USA have substantial forex exposure. This exposure can be an asset, if properly managed – but often it is a liability. Recently, the trend in corporate accounting has been to blame "currency headwinds" which can be a good excuse for up to $10 billion in losses. Did these executives ever hear about hedging?*

So what does this data mean? It means that half of Corporate America is speculating BIG in Forex. **Not hedging, when you have FX positions, is speculating.** For example, imagine you're a big US multinational like McDonalds (MCD). McDonalds (MCD) is a great example because they are one of the companies that lives off their FX hedges. Without FX hedging, it's questionable if MCD could survive, because more than 60% of their revenue comes from non-US Dollar (USD). That means their revenue, without FX hedging, would be nearly an exact function of the FX markets (which is the case for these companies that don't hedge). Companies that lose billions of dollars due to 'currency headwinds' – they are losing huge in Forex.

Here's the irony. Pension Funds and many institutions are reluctant to invest in Forex strategies because they are 'risky'. But they invest in the stock of companies that lose billions in Forex! And that's OK. Well, everyone is losing, so why not us too. Heck, I don't want to be singled out as the one state pension fund that's actually MAKING money for our retirees, that might cause me to get promoted, or lose my job.

Why don't these companies hedge you ask? Isn't it their fiduciary duty to their shareholders? Here's one perspective from PWC:

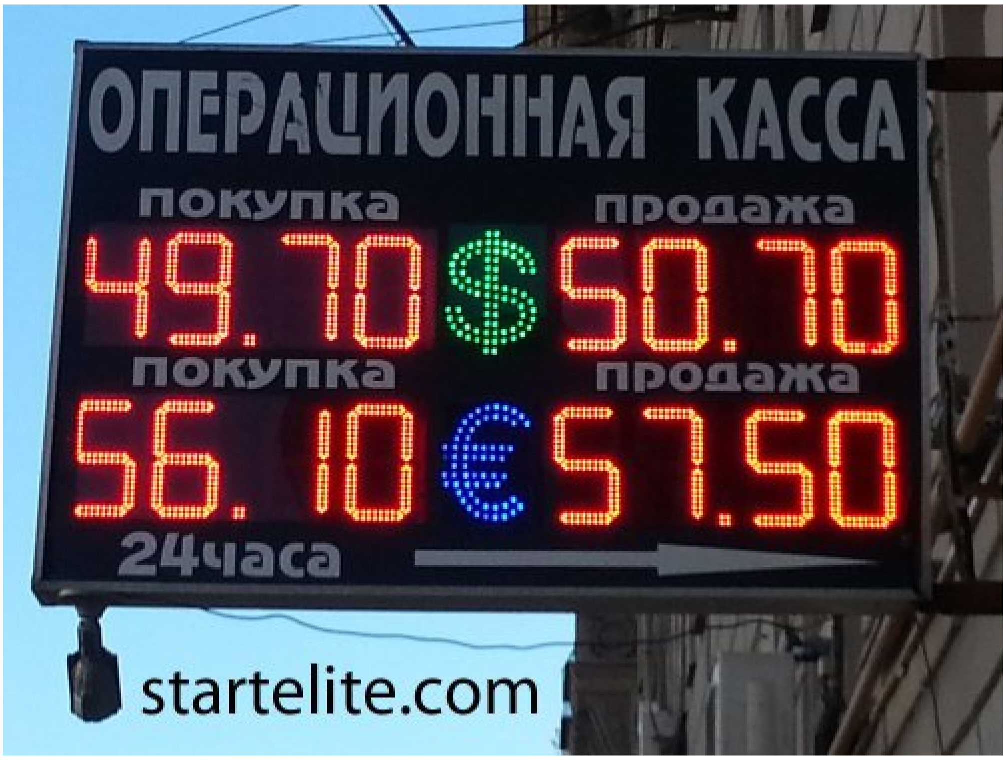
> *When a publicly held company engaged in a multi-billion dollar investment in an overseas location*
> *recently, the firm considered using a hedge – or swap –*

> *contract to reduce the risk that a big currency swing would impact costs and financial results. The plan was sound financially. Yet, management had concerns about the reaction of investors to this approach and decided to drop the hedging plan, says Chris Rhodes, accounting advisory services partner at PricewaterhouseCoopers (PwC). Why? Because the CFO determined that, although the hedge would protect all the cash spent in the foreign jurisdiction against currency exposure, the cost of capital — in this case borrowing in external markets —* ***"would be negatively impacted by the inability of some analysts to understand the reporting issues involved," Rhodes explains. "The concern is that, although many analysts would immediately grasp the sophisticated currency-hedging procedures that were key to the plan, others might not."***

So you see, according to this perspective, CFOs understand Forex, but they understand that others such as analysts don't understand, and think that there's a negative perception problem, to closing a big gaping hole in their FX exposure.

One year in the 90's, Intel Corporation made more money on their FX positions than they did selling processors. Not all of Corporate America is completely stupid. There are some savvy FX managers out there, that do a great job. But for the other half, one has to wonder if FX volatility will finally drive these unhedged companies out of business.

Here's what you see on every street corner in Russia:



At least, some humans are prepared for potential financial catastrophe, even if it’s as simple as FX volatility.

To learn more about Forex Hedging, [checkout Splitting Pennies – your pocket guide designed to make you an instant Forex Genius!] Or checkout [Fortress Capital Forex Hedging].

The post [Half of Corporate America losing BILLIONS in Forex for no reason] appeared first on [Forex IQ].