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29 Apr 08 - FOREX VIEW: Study Confirms Big Cos Get Better Forex Rates

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NEW YORK (Dow Jones)--A new study seems to confirm what companies outside the financial sector that buy and sell foreign currencies have believed for years: bigger companies get better
exchange rates from banks than the little guys.

In some cases, that is because large companies have the resources to manage currency risks better than the small firms, and are better at communicating their needs to the banks that execute the trades, according to the study by forex advisory firm HiFX.

But often the companies - sometimes even the big firms - get poor currency exchange rates because they rely too much on forex advice from the same banks that process the trades, which preparers of the study say may not be a good idea.

Making matters even more difficult for real-sector, or non-financial, firms trying to manage their forex needs is a recent rise in volatility amid a sliding dollar. This is bolstering the chances for heavy losses related to forex exposure, the study indicates.

The report by San-Francisco based HiFX, called "Global Forex Pricing and Best Practices," was recently completed as an internal study. It analyzes more than 1,500 currency trades over the past year from 270 North American companies that use more than 30 financial institutions to execute the trades.

Banks that execute trades for real-sector firms often do so "at rates that were subpar to whatwere otherwise available on the day of the specific trade," according to HiFX. The subpar rates are seen much more in the small to medium-sized firms than the big ones, it added.

Small firms received competitive rates just 19% of the time, with "competitive" being defined as obtaining a rate better than the average intraday rate on the day the trade was done. Large usersof foreign exchange services received competitive rates on 38% of their trades, the study showed.

"Bigger tend to fair better," said Ward Naughton, president of HiFX, in an interview with Dow Jones Newswires.

Calls were made to several large banks with foreign exchange trading desks, seeking comment on the study, but none were returned.

Big Firms Not Immune To Poor Exchange Rates

The study revealed that large companies also sometimes get prices that could be better. Nearly three-quarters of all trades examined - from both big and small firms - were found to not be competitive. That is, the rate wasn't better than the average intraday rate on the day the trade was execute.

One company that took part in the study was a provider of consumer medical services that got a poor exchange rate when it bought roughly $60 million U.S. dollars with Canadian dollars. The unnamed company, which used a combination of U.S., European and Canadian banks, sold the Canadian dollar at an equivalent U.S. dollar rate of C$1.1625, well above the intraday high of C$1.1596, on a day when the intraday average was C$1.1570.

HiFX's Naughton said trades such as this are typical, and suggest that many companies need to improve their forex management practices. He said that if he were treasurer for a real-sector firm that often buys and sells foreign currency, "I'd want to make sure I'm getting

objective, independent advice."
But he acknowledged that in some cases, the same bank handling a company's foreign exchange consulting and trades is the same one lending it money.

"There may sometimes be a credit relationship, so companies may be hostage" to the financial firm, especially if they are the "only bank giving the company credit," Naughton said.

Don't Rock The Boat

Mayiz Habbal, senior vice president of securities and investments at New York-based research and consulting firm Celent, said he isn't surprised at the results of the study.

But he echoed Naughton's comments, saying firms in general know they sometimes don't receive competitive prices, but "don't want to rock the boat" with the banks because the banks help them in other, more important ways.

Small to medium-sized firms such as the consumer medical company "probably understand they are not being offered the proper rates and they're okay with it," Habbal added.

So, while companies that need to buy and sell foreign currency would like to receive true and transparent market pricing, the reality sometimes makes it impossible.

Even in the Internet age that allows companies instant and broad access to forex information and to know the prices they could receive, firms often look the other way when they are quoted a poor rate because it isn't such a huge loss, anyhow.

Still, HiFX's Naughton said smaller firms could take a lesson from some of the bigger firms in terms of being better prepared to work with the banks to get the best rates possible.

"Part of the reason why larger companies who have achieved competitive prices have done so is because they have developed and implemented better forex management practices," he said.

These include "forecasting forex exposures, having more focused discussions with their service providers, implementing specific transaction management programs, etcetera," Naughton said.

One way for real-sector companies to perform better in their forex trades is to hire foreign exchange advisory firms.

But Celent's Habbal said "nothing is for free."

"You could pay the bank (by accepting poorer exchange rates) and the banks takes care of you in other ways, or you can you use advisory firms that take a fee," he said.

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