MONEX

Case Study: Pre-Priced Parts Dollar Weakening

As a leading provider of corporate foreign exchange (FX) and global payment solutions, we focus on understanding our client's business to tailor our products and services to best manage their currency needs. The following case study illustrates how Monex USA was able to help a client protect their profit margin using FX tools and services.

Scenario

An automotive parts supplier based in Illinois placed an order for parts from their vendor in Mexico. The client negotiated the price for 8.9M Mexican peso (MXN) then priced the parts in US dollar (USD) for resale. Through our proactive monitoring of the situation and Monex USA's own forecasts, the client realized that the MXN showed little sign of reversing its strengthening trend against the USD.

Challenge

The full amount owed was due at a pre-specified date 2 months out and the MXN had consistently strengthened against the USD, eating away at the client's expected profit margins. The client was awaiting credit from another vendor before having the funds available to pay the invoice in full.

Strategy

In order to secure the company's remaining profit margin it was decided to use a fixed-date forward, to avoid any potential for further losses to the company's profits that would arise from the MXN continuing its appreciation against the USD.

- *8.9M MXN (100%) fixed-date forward closing at a pre-determined date 2 months out.*

Additionally, they came up with a reasonable and competitive product pricing strategy for future orders so that the client could maximize profitability for each unit sold while taking into account potential market rate fluctuations.

*"Even though FX is a **small part** of my business, it has a **big impact** on our bottom line. It's comforting to know my account manager is always keeping up with the **(FX) market** for me."*

Outcome

Despite losing some of their expected profit from the parts ordered, the client secured the balance profit versus waiting for the invoice due date.

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