CLOSER THAN YOU THINK

As the world gets smaller, Middle Eastern companies are doing more business in emerging markets. Alex Johnson explains how treasurers can manage the associated FX risk

Not so long ago, the idea of a Middle Eastern-based company having a treasury department was relatively novel. Times change quickly. In 2014, the average large corporate in the region has a well-rounded core of internationally experienced, multi-disciplined staff. Many companies either run regional treasury centres or even group treasuries from locations such as Abu Dhabi, Doha and Dubai. And as local companies make acquisitions overseas, or indeed grow their businesses geographically, this introduces additional financial risks, one of which is FX risk.

While expanding into the eurozone or the US would not cause a treasurer any sleepless nights from an FX perspective, what about doing business in Africa or Latin America? If the business has involved the treasury team in its expansion plans, then preparations for dealing in the local currency can be made. But what if it has not and the first anyone knows is when the treasury dealer gets a call to sell, for example, Nigerian naira? What the business does not necessarily appreciate is the complexity of dealing in some of these so-called 'onshore' markets, where exchange controls and a bid, but no offer, is the norm. And, of course, there is the question of whom to call for a price.

One only has to look at the destinations that our world-class regional airlines fly to, to appreciate that, while we might not all be jetting off to Luanda or Conakry next week, we are certainly well covered as the Middle East becomes a very strong hub for travelling into Africa. Many companies now have their African sales forces based out of the Middle East, shunning traditional centres, such as London. Who knew that the world's largest producer of halal chickens is based in Brazil? There are many countries with increasing trade flows into the Middle East in both Latin America and Africa.

So where does this leave the treasurer who has to deal in Brazilian reals or Angolan kwanza? Of course, they can always turn to the friendly relationship bank. But that might not work if this is a new market for them and they need to set up nostro accounts, and get the buy-in from their risk and compliance people to start business in a new country.

Fortunately, many of the banks in emerging markets are keen to offer pricing to international corporates. And while business may move at a slower pace than it sometimes does in the Middle East, the end result is a favourable one for everyone. No longer is the Gulf Cooperation Council (GCC) treasurer forced to endure African telephonic echoes and, as was the case with one customer, a tender box for 'competitive bidding of FX' at their Lagos office (a three-day process involving banks submitting signed and stamped paper bids).

Regional countries offer strong opportunities. Adapting to illiquid currencies is something all GCC treasurers are familiar with. Exchange controls, one-sided options to buy or sell the currency, and onshore licences are just added features to think of. At the same time, it is important to focus on the needs of the group, which means transparency in the process, control over price execution and management information in relation to the business transaction.

So next time you are asked to trade in the currency of a country that you are not quite able to locate on the map, remember that there probably is a fairly simple solution. Without having to worry about your emerging-market FX trading, your Buffalo wings will taste so much better...

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