Treasurers of Many Multinational Firms Took Risks to Profit From Falling Dollar

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Treasurers of many multinational companies would be the last ones to crow about it, but over recent months they made money for their companies off the dollar's plunge. Now, as they move to lock in their profits, it's becoming clear they also took a few chances to add to the gains.

The Japanese yen advanced 16.1% and the German mark moved ahead 10.4% against the dollar since the first of the year. The decline has provided large income gains for American multinationals that have operations in Japan and Germany or in other countries with currencies linked to the yen and the mark. When they translate their first-quarter foreign profits back into dollars, they'll get more dollars than in previous reporting periods.

But to make even more money from the dollar's descent, corporate treasurers of some of the nation's largest businesses have quietly been betting against the dollar in the futures market. While many treasurers fully hedge against currency fluctuations, the majority operate within a predetermined band of flexibility. A few months ago, with the dollar declining so deeply, more and more treasurers took advantage of their allowable flexibility to join Wall Street traders in betting that the dollar would keep falling.

Change of Strategies

"We've seen more companies changing their strategies to get participation in the dollar's decline," says Robert Baldoni, managing director of Emcor Risk Management Consulting, Irvington, N.Y. Adds Britt Swofford, a senior vice president of First National Bank of Chicago, "There's been much more willingness to use options to take advantage" of the dollar's perceived direction. Currency options protect users from unfavorable exchange-market moves but, unlike other risk-reducing financial instruments, allow gains to keep accumulating.

Companies with exposure to falling foreign currencies didn't fare as well. Many protected themselves by hedging their Canadian dollar positions. But hedge protection in the Mexican peso wasn't as readily available and was much more expensive. Later this month, the Chicago Mercantile Exchange will make it easier for companies to hedge the currency when it begins trading peso futures and options.

As keepers of the corporate cash, treasurers have many roles, ranging from timing the payment of bills to watching over their pension funds. But their most sensitive job these days is risk management. After the recent series of financial losses using risk-management derivative instruments at Procter & Gamble Co., the Orange County, Calif., government and others, corporations have intensified their scrutiny of such policies.

"If a Treasury Department comes in with hedging profits, there is almost unhappiness," says Ennius Bergsma, an official with McKinsey & Co., the management-consulting firm. "It's as if they let the virus in and one day the results will go the other way." Adds the treasurer of a large multinational company, "It's a no-win situation." He said to take advantage of the falling dollar, "we chose this year either to go unhedged or to use options to a greater extent than in the past."

James Mevay, an official of Chase Securities Inc., an arm of Chase Manhattan Corp., said most companies hedge about half of their currency exposure but can take the level as high as 75% and as low as 25% depending on a number of factors. "As the dollar decline gained momentum, we saw companies reduce their hedges," he said.

Costly Form of Insurance

But an unhedged position could have gone the other way. Also, options are a costly form of insurance. They range in price from 3% to 5.5% or more of the total transaction value. If there are no gains, that is, if the dollar doesn't decline on a yen or mark conversion deal, the money spent has become an unnecessary cost.

For that reason, "An option is a much riskier alternative," to other, less expensive hedging techniques, says Don Aquila, director of treasury operations for Thomas & Betts Corp. His company doesn't use options. ?!

Many companies wouldn't discuss foreign-exchange strategies because they felt that disclosure of any shifts might imperil favorable hedge accounting treatment. Others said they were in a "blackout" period because earnings hadn't been posted.

"We do some hedging," says Arnold Brookstone, chief financial officer of Stone Container Corp. And yes, he says, "that hedging is modified from time to time." But as far as discussing his first-quarter strategy and results, all he would say is, "Our earnings are out next week." Eastman Kodak Co. also wouldn't discuss currency-translation results, although it has

Please Turn to Page A6, Column 1

Multinational Firms Try to Reap Profits From Falling Dollar

WSJ
4/17/95 *Continued From Page A2*

taken the posture of being unhedged. That means it stood to gain handsomely from receivables in marks or yen.

Strategy shifts are still taking place, even as some companies are looking to lock in profits. "A lot more firms are getting more aggressive," says Michael O'Brien, a vice president of Coda Inc., a Manchester, N.H., company that provides foreign-exchange tracking software.

! Hasbro Inc., the toy company, is seeking board approval to use foreign-exchange options for hedging. As Jim Jimenez, director of international treasury, says, "If you sold the mark at year end in a forward contract obligation at 1.58, there was a big opportunity given up." The mark is now trading at 1.39 for each dollar.

Lam Research Corp., a fast-growing California technology company, is gearing up to more actively run its foreign-currency hedging to take advantage of continued swings in the yen-dollar relationship. It expects its yen-based revenue to double to as much as $100 million in its next fiscal year, starting July 1. And at Air Compak International Inc., Comptroller John Wittler is getting ready for the reversal in the dollar's direction. "We have toyed with the idea of hedging 10% or 15% less, but we'll wait to see a new trend [in the dollar] develop first."

Options usage has fallen off, in part because options have become so expensive, says Klaus Sahid, a managing director at J.P. Morgan & Co. "We had been seeing more options hedging, but it's gone quiet," he said, adding that one-year options are now twice as expensive as a few months ago. Volatility!

After such a sharp decline, "Customers are getting a little queasy about these levels because they have a lot of gains to protect," says Mr. Mevay of Chase. His firm is talking to three large multinationals about locking in their gains with relatively long (two years or more) forward exchange contracts and taking the risk out of the interest risk portion of those transactions with interest-rate swaps.

For those companies, the gains of the first quarter will accumulate through the rest of the year as well, even if the yen and mark fall in value.

32