

**FOREIGN CURRENCY  
EXPOSURE**

AUSTRALIA

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For further information about these and related statistics, contact the National Information and Referral Service on 1300 135 070 or Wendy Raedt on Canberra (02) 6252 6171.

## INTRODUCTION

This publication presents results in respect of 31 March 2005, from an Australian Bureau of Statistics (ABS) survey of Australian enterprises with exposure to foreign currency. The survey sought to cover all enterprises with significant foreign currency denominated balance sheet items and/or significant expected foreign currency denominated receipts and payments from trade. The information collected included foreign equity assets, foreign currency denominated debt assets and liabilities, foreign currency denominated receipts and payments from trade expected after 31 March 2005, the principal value of outstanding currency derivative contracts and policies on hedging foreign currency exposure.

The survey was conducted by the ABS, with the assistance of the RBA, to provide additional information to that available in the International Investment Position, on the mitigating impact of hedging activities on foreign currency exposures.

This survey was conducted previously in June 2001, with results released in a special article in the December quarter 2001 issue of *Balance of Payments and International Investment Position* (cat. no. 5302.0).

## ROUNDING

Where figures have been rounded, discrepancies may occur between the sum of component items and the total.



## ABBREVIATIONS

- \$b billion (thousand million) dollars
- ABS Australian Bureau of Statistics
- CBAs Central Borrowing Authorities
- RBA Reserve Bank of Australia
- SISCA Standard Institutional Sector Classification of Australia

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## MAIN FEATURES

### FOREIGN CURRENCY EXPOSURE

As at 31 March 2005, Australian resident enterprises had a net long foreign currency exposure of \$217.6b after taking account of hedging through the use of foreign currency derivative contracts, an increase of \$68.6b on the 30 June 2001 exposure. However, data between the periods are not directly comparable due to an increase in scope and coverage for the 2005 survey (see paragraphs 2 and 4 of the Explanatory Notes).

The net long foreign currency balance sheet position as at 31 March 2005 was \$91.9b, an increase of \$27.9b on 30 June 2001. This was made up of an increase in foreign equity assets of \$115.2b, an increase in foreign currency denominated debt assets of \$57.2b and an increase in foreign currency debt liabilities of \$144.5b.

The net long foreign currency exposure before hedging, including expected foreign currency denominated receipts and payments from trade, as at 31 March 2005 was \$95.8b. No equivalent data is available for 30 June 2001.

### FOREIGN CURRENCY EXPOSURE BY SECTOR

Banks had an expected net foreign currency exposure before hedging of -\$152.5b. After accounting for hedging through the use of foreign currency derivative contracts, the net foreign currency exposure was significantly reduced to \$0.8b.

The RBA's net foreign currency balance sheet exposure is \$43.8b, and after accounting for derivatives, the exposure is \$22.4b.

Other financial corporations had a net foreign currency exposure before hedging of \$113.7b. After hedging, this was reduced to \$98.5b.

Central borrowing authorities and general government had a net foreign currency exposure before hedging of -\$5.8b, which was reduced to -\$2.5b after hedging.

Other resident sectors had an expected net foreign currency exposure before hedging of \$96.6b. This was the only sector to increase its foreign currency exposure after undertaking hedging activities, contributing \$98.5b to the total net foreign currency exposure.

### DERIVATIVE CONTRACTS

Australian resident enterprises predominantly used forward foreign exchange derivative contracts in their management of foreign currency exposure. Cross currency interest rate swaps made up the bulk of other types of derivatives. These two products accounted for 60.8% (\$750.4b) and 26.7% (\$329.6b) respectively of the principal value of outstanding foreign currency derivative contracts where foreign currency is bought in exchange for Australian dollars. Similarly, forward foreign exchange derivative contracts and cross currency interest rate swaps accounted for 67.1% (\$746.8b) and 18.3% (\$204.1b) of the principle value of outstanding foreign currency derivative contracts where foreign currency is sold in exchange for Australian dollars. No product information is available for foreign currency derivative contracts where one foreign currency is exchanged for another foreign currency.

The net effect of bought (\$1,806.2b) and sold (\$1,684.4b) derivative contract principal values was that there was hedging against \$121.8b of Australian resident enterprises' foreign currency exposure.

## MAIN FEATURES *continued*

### HEDGING POLICY AND PRACTICE

As part of the survey, providers were asked to identify the hedging policies they had put in place for their foreign currency denominated equity assets, debt assets and liabilities and expected foreign currency denominated receipts and payments from trade. The responses related only to hedging using foreign currency derivatives and did not refer to any natural hedging or strategies which involved structuring the balance sheet in order to reduce foreign currency exposure.

Providers were also asked to nominate the percentage of their foreign currency denominated positions they were aiming to cover with each of the different type of policies.

The predominant policy adopted by all sectors for hedging foreign equity assets was "no hedging", with \$218.1b (63.5%) of total foreign equity assets not hedged. Banks had zero-hedged foreign equity assets of \$19.4b, other financial corporations had zero-hedged foreign equity assets of \$54.7b and other resident sectors had zero-hedged foreign equity assets of \$143.8b.

Values of foreign equity assets have been multiplied by the nominated percentage to be hedged. The resulting value of hedged foreign equity assets was \$72.0b, indicating 20.1% was hedged across all sectors. However, levels hedged varied considerably between sectors, with banks hedging \$9.7b (29.4%), other financial corporations hedging \$60.0b (37.4%) and other resident sectors hedging \$2.2b (1.5%).

For all sectors the main policy applied to hedge foreign equity assets was "hedging a constant percentage", with \$55.2b (76.7%) of total hedged foreign equity assets hedged under this policy. Only two other policies applied to hedging of foreign equity assets; "varying the level of hedging with changing conditions" and "other".

The main policy applied to hedge gross debt assets and liabilities, was "hedging a constant percentage", with \$433.0b (63.8%) of gross debt assets and liabilities subject to this policy.

Values of foreign debt assets and liabilities have been multiplied by the nominated percentage to be hedged. The value of gross debt assets and liabilities hedged was \$535.8b, indicating 78.9% was hedged across all sectors. Of this, \$412.2b (76.9%) of the total hedged debt assets and liabilities was hedged under the "hedging a constant percentage" policy.

### EXPECTED FOREIGN CURRENCY DENOMINATED RECEIPTS AND PAYMENTS FROM TRADE

Expected foreign currency denominated receipts and payments from trade as at 31 March 2005 were \$92.7b and \$88.8b respectively. These receipts and payments are predominantly due from/to non-residents, with expected receipts from non-residents totalling \$91.0b (98.2%) and expected payments to non-residents totalling \$87.1b (98.1%).

# 1

## FOREIGN CURRENCY EXPOSURE AT END OF PERIOD (a)

<i>Instrument</i>	30 June 2001	31 March 2005
	\$b	\$b
Foreign equity assets	228.5	343.7
Foreign currency denominated debt assets	156.5	213.7
Foreign currency denominated debt liabilities	321.0	465.5
<i>equals</i>		
<b>Net foreign currency balance sheet position</b>	<b>64.0</b>	<b>91.9</b>
Expected foreign currency denominated receipts from trade	(b). .	92.7
Expected foreign currency denominated payments for trade	(b). .	88.8
<i>equals</i>		
<b>Expected net foreign currency exposure (before hedging)</b>	<b>64.0</b>	<b>95.8</b>
Principal value of foreign currency derivative contracts in a bought position		
Foreign currency bought in exchange for Australian dollars	548.4	1 234.8
Foreign currency bought in exchange for other foreign currencies	. .	571.4
Principal value of foreign currency derivative contracts in a sold position		
Foreign currency sold in exchange for Australian dollars	463.4	1 113.0
Foreign currency sold in exchange for other foreign currencies	. .	571.4
<i>equals</i>		
<b>Net foreign currency exposure (after hedging)</b>	<b>149.0</b>	<b>217.6</b>

. . not applicable

(b) See paragraph 2 of the Explanatory Notes.

(a) Data between periods are not directly comparable due to changes in coverage. See paragraph 4 of the Explanatory Notes.

## FOREIGN CURRENCY EXPOSURE BY SECTOR AS AT 31 MARCH 2005 (a)

<i>Instrument</i>	<i>Banks</i>	<i>RBA</i>	<i>Other financial corporations</i>	<i>CBAs &amp; general government</i>	<i>Other resident sectors</i>	<i>Total all sectors</i>
	\$b	\$b	\$b	\$b	\$b	\$b
Foreign equity assets	33.0	0.2	160.4	—	150.1	343.7
Foreign currency denominated debt assets	96.8	43.7	48.7	0.3	24.1	213.7
Foreign currency denominated debt liabilities	282.4	0.1	95.4	3.6	84.0	465.5
<i>equals</i>						
<b>Net foreign currency balance sheet position</b>	<b>-152.5</b>	<b>43.8</b>	<b>113.7</b>	<b>-3.3</b>	<b>90.2</b>	<b>91.9</b>
Expected foreign currency denominated receipts from trade	—	—	—	0.1	92.6	92.7
Expected foreign currency denominated payments for trade	—	—	—	2.6	86.2	88.8
<i>equals</i>						
<b>Expected net foreign currency exposure (before hedging)</b>	<b>-152.5</b>	<b>43.8</b>	<b>113.7</b>	<b>-5.8</b>	<b>96.6</b>	<b>95.8</b>
Principal value of foreign currency derivative contracts in a bought position	1 450.9	8.1	205.3	3.9	137.9	1 806.2
Foreign currency bought in exchange for Australian dollars	887.0	0.7	205.3	3.9	137.9	1 234.8
Foreign currency bought in exchange for other foreign currencies	563.9	7.5	..	..	..	571.4
Principal value of foreign currency derivative contracts in a sold position	1 297.6	29.6	220.6	0.6	136.0	1 684.4
Foreign currency sold in exchange for Australian dollars	733.7	22.1	220.6	0.6	136.0	1 113.0
Foreign currency sold in exchange for other foreign currencies	563.9	7.5	..	..	..	571.4
<i>equals</i>						
<b>Net foreign currency exposure (after hedging)</b>	<b>0.8</b>	<b>22.4</b>	<b>98.5</b>	<b>-2.5</b>	<b>98.5</b>	<b>217.6</b>

.. not applicable

— nil or rounded to zero (including null cells)

(a) For sign conventions see paragraph 13 of the Explanatory Notes.

## TYPE OF DERIVATIVE CONTRACTS AS AT 31 MARCH 2005, All Sectors

<i>Product type</i>	<i>Banks</i>	<i>RBA</i>	<i>Other financial corporations</i>	<i>CBAs &amp; general government</i>	<i>Other resident sectors</i>	<i>Total all sectors</i>
	\$b	\$b	\$b	\$b	\$b	\$b
<b>Principal value of foreign currency derivative contracts in a bought position</b>	<b>1 450.9</b>	<b>8.1</b>	<b>205.3</b>	<b>3.9</b>	<b>137.9</b>	<b>1 806.2</b>
Foreign currency bought in exchange for Australian dollars	887.0	0.7	205.3	3.9	137.9	1 234.8
Forward foreign exchange	483.2	0.7	150.5	3.6	112.4	750.4
Cross currency interest rate swaps	265.7	—	42.1	0.3	21.5	329.6
Futures	86.9	—	—	—	—	86.9
Currency options	50.8	—	12.1	—	4.0	66.8
Other	0.5	—	0.6	—	—	1.1
Foreign currency bought in exchange for foreign currency	563.9	7.5	..	..	..	571.4
<b>Principal value of foreign currency derivative contracts in a sold position</b>	<b>1 297.6</b>	<b>29.6</b>	<b>220.6</b>	<b>0.6</b>	<b>136.0</b>	<b>1 684.4</b>
Foreign currency sold in exchange for Australian dollars	733.7	22.1	220.6	0.6	136.0	1 113.0
Forward foreign exchange	419.7	22.1	173.7	0.3	130.9	746.8
Cross currency interest rate swaps	179.3	—	21.5	0.3	3.0	204.1
Futures	86.4	—	0.4	—	—	86.8
Currency options	48.2	—	24.9	—	2.1	75.2
Other	0.2	—	0.1	—	—	0.2
Foreign currency sold in exchange for foreign currency	563.9	7.5	..	..	..	571.4

.. not applicable

— nil or rounded to zero (including null cells)

NET FOREIGN CURRENCY EXPOSURE POSITIONS (AFTER HEDGING) BY SECTOR AS AT 31  
MARCH 2005 (a)

<i>Sector</i>	<i>Total value of units in a deficit position</i>	<i>Total value of units in a surplus position</i>	<i>Net position</i>
	\$b	\$b	\$b
<b>Net foreign currency exposure (after hedging)</b>	<b>-149.1</b>	<b>366.7</b>	<b>217.6</b>
Banks	-31.1	31.8	0.8
RBA	—	22.4	22.4
Other financial corporations	-13.0	111.5	98.5
CBAs and general government	-2.6	0.1	-2.5
Other resident sectors	-102.4	200.9	98.5

— nil or rounded to zero (including null cells)

(a) For sign conventions see paragraph 13 of the Explanatory Notes.

<i>Instrument and Policy</i>	<i>Banks</i>	<i>RBA</i>	<i>Other financial corporations</i>	<i>CBAs &amp; general government</i>	<i>Other resident sectors</i>	<i>Total all sectors</i>
	\$b	\$b	\$b	\$b	\$b	\$b
<b>Foreign equity assets</b>						
Value before hedging by policy	33.0	0.2	160.4	—	150.1	343.7
No hedging	19.4	0.2	54.7	—	143.8	218.1
No policy	—	—	—	—	—	—
Hedging constant percentage	10.0	—	64.9	—	5.4	80.2
Level hedged varies with changing conditions	—	—	24.1	—	0.4	24.5
Other policy	3.7	—	16.8	—	0.6	21.0
Value hedged by policy(a)	9.7	—	60.0	—	2.2	72.0
No hedging	—	—	—	—	—	—
No policy	—	—	—	—	—	—
Hedging constant percentage	9.5	—	43.8	—	1.9	55.2
Level hedged varies with changing conditions	—	—	9.9	—	0.3	10.2
Other policy	0.2	—	6.4	—	—	6.6
<b>Debt assets and liabilities</b>						
Value before hedging by policy	379.2	43.8	144.1	4.0	108.1	679.1
No hedging	26.5	—	9.9	0.1	46.2	82.7
No policy	—	—	—	—	—	—
Hedging constant percentage	264.2	—	113.2	3.9	51.8	433.0
Level hedged varies with changing conditions	11.5	—	8.5	—	4.8	24.8
Level hedged varies with time horizons	—	—	—	—	0.6	0.6
Other policy	77.0	43.8	12.5	—	4.7	138.0
Value hedged by policy(a)	343.3	21.5	119.1	3.7	48.3	535.8
No hedging	—	—	—	—	—	—
No policy	—	—	—	—	—	—
Hedging constant percentage	255.9	—	109.8	3.7	42.8	412.2
Level hedged varies with changing conditions	10.7	—	3.4	—	3.7	17.7
Level hedged varies with time horizons	—	—	—	—	0.5	0.5
Other policy	76.8	21.5	5.9	—	1.3	105.4

— nil or rounded to zero (including null cells)

(a) Value hedged is the total value reported, multiplied by the nominated percentage to be hedged.

EXPECTED FOREIGN CURRENCY DENOMINATED RECEIPTS AND PAYMENTS FROM TRADE AS AT 31 MARCH 2005 (a)(b)

	Receipts	Payments	Net Receipts
<i>Time horizon over which receipts and payments are expected</i>	\$b	\$b	\$b
<b>Expected foreign currency denominated receipts and payments from trade</b>	<b>92.7</b>	<b>88.8</b>	<b>3.9</b>
Non-residents	91.0	87.1	3.9
Less than or equal to 90 days	26.1	26.4	-0.3
Greater than 90 days but less than or equal to 6 months	9.0	12.1	-3.1
Greater than 6 months but less than or equal to 1 year	11.2	20.8	-9.6
Greater than 1 year but less than or equal to 5 years	28.7	21.2	7.5
Greater than 5 years	15.9	6.6	9.4
Residents	1.7	1.7	—
Less than or equal to 90 days	0.7	0.7	—
Greater than 90 days but less than or equal to 6 months	0.3	0.3	—
Greater than 6 months but less than or equal to 1 year	0.7	0.7	—
Greater than 1 year but less than or equal to 5 years	—	—	—
Greater than 5 years	—	—	—

— nil or rounded to zero (including null cells)

(a) For sign conventions see paragraph 13 of the Explanatory Notes.

(b) For information about the quality of these estimates see paragraph 11 of the Explanatory Notes.

## EXPLANATORY NOTES

- INTRODUCTION** **1** This publication presents results in respect of 31 March 2005, from an ABS survey of Australian enterprises with exposure to foreign currency. This is the second occasion this survey has been conducted; the first was conducted in respect of 30 June 2001 and conducted as a supplementary survey to the Survey of International Investment. Results were published in the December quarter 2001 issue of *Balance of Payments and International Investment Position*, (Cat. no. 5302.0).
- SCOPE** **2** The scope of the survey was all resident enterprises with significant foreign currency exposure through foreign currency denominated balance sheet positions and/or expected foreign currency denominated receipts and payments from the trade of goods and services. This included government and private institutions, primarily financial corporations, importers and exporters. The results for 31 March 2005 included expected foreign currency receipts and payments from trade, which were out of scope for the previous collection.
- COVERAGE** **3** The survey population was designed to include those enterprises that would cover approximately 90 per cent of foreign currency exposure for assets and liabilities, and was supplemented with a selection of significant importers and exporters with foreign currency denominated trade in goods and/or services.
- COVERAGE CHANGES** **4** The coverage for this survey was increased when compared to the June 2001 survey, to include 100 per cent coverage of banks, with the total number of providers increasing from 232 in June 2001 to 538 in March 2005. This causes estimates from this survey to not be directly comparable with those from the June 2001 survey.
- INSTITUTIONAL SECTORS AND SUBSECTORS** **5** The institutional sectors are based on the *Standard Economic Sectors Classifications of Australia 1998* (cat. no. 1218.0) and are the same as the sectors used in national income and expenditure accounts.
- 6** The basic unit that is classified by sector is the institutional unit, which is defined as an economic entity that is capable, in its own right, of incurring liabilities and engaging in economic activities and transactions with other entities.
- STATISTICAL UNIT** **7** The unit for which statistics were reported in the survey was the Australian enterprise unit. This consists of all the entities within an Australian enterprise group that are in the same SISCA subsector.
- REFERENCE PERIOD** **8** Data contained in this publication relate to foreign currency denominated financial positions (balance sheet) and expected foreign currency denominated receipts and payments from trade collected from selected enterprises as at 31 March 2005.
- ACCURACY AND RELIABILITY** **9** Care should be exercised in the use and interpretation of data in this publication. While every effort is made to ensure the accuracy and reliability of data it is still possible that the variability within data can be significant.
- 10** Responses were received from 91.0% of the surveyed enterprises.
- 11** Some estimation has been made for foreign currency denominated receipts and payments. The data was benchmarked to foreign currency receipts and payments for trade in goods and services for the period 1 April 2005 to 30 June 2005 as published in *International Trade in Goods and Services* (cat. no. 5368.0). This benchmarking particularly affected estimates of expected payments.
- ROUNDING** **12** Where figures have been rounded, a discrepancy may occur between the sum of the component items and the total. Published percentages are calculated prior to rounding of figures and therefore a discrepancy may occur between the published percentages and percentages which could be calculated using the published estimates.

## EXPLANATORY NOTES *continued*

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- SIGN CONVENTION**                    **13** Contrary to the balance of payments conventions, this publication uses the natural sign convention in the presentation of data, analysis and associated commentary.
- CURRENCY CONVERSION**           **14** Data are expressed in Australian dollars. Amounts denominated in a foreign currency are converted to Australian currency at the market exchange rate at the reference date.
- VALUATION BASIS**                    **15** In these statistics all asset and liability positions are valued at market prices.
- 16** The principal value is reported for all financial derivative currency contracts. The principal of a derivative contract is the underlying nominal amount upon which the transaction is based.
- FURTHER INFORMATION**            **17** A wide range of analyses are possible with the data collected. The full set of output tables is available on AusStats.
- ACKNOWLEDGEMENT**                **18** ABS publications draw extensively on information provided freely by individuals, businesses, governments and other organisations. Their continued cooperation is much appreciated; without it, the wide range of statistics published by the ABS would not be available. Information received by the ABS is treated in strict confidence as required by the *Census and Statistics Act 1905*.







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