高等财经院校试用教材

国际金融专业英语

ENGLISH ON INTERNATIONAL FINANCE

下　册

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蒋 辑主编

中国金融出版社

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编 审 说 明

本书是为适应高等院校国际金融专业高年级英语教学需要而选编的试用教材，也可供从事国际金融工作的干部和研究人员学习参考，全书分为上下两册。

本书课文选自国外近年出版、发表的有关书刊和文章，内容包括国际收支、国际货币体系、国际金融市场、国际信贷、外汇汇率、外汇业务等方面的基本知识。为适应教学的需要，有些地方略作修改，在学习过程中，对资产阶级经济学家的理论、观点、应有所鉴别。

本书由天津财经学院国际金融教研室蒋辑同志主编，王正、郑云深同志参加了部分编写工作，经中国银行浦寿海同志审订。在编写过程中，中国银行浦寿海、上海财经学院谢树森、天津财经学院徐国勋、辽宁大学陈家盛、邵延利、暨南大学费存仁、人民大学沈瑞年、中央财金学院陈抗风等同志均参加了讨论并提出了许多宝贵意见。

现经我们审定，本书可以作为试用教材出版。各校在试用过程中，有什么意见和建议，请函中国人民银行科教司教材编审室。

中国人民银行教材编审委员会

一九八三年十一月

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Lesson 18

Foreign Exchange Risks

In 1974 the authorities closed the doors of Franklin National Bank of New York and the Herstatt Bank in Germany. Their problems were widely attributed to foreign exchange activities, with the result that commercial bank managements around the world took a hard new look at the risks associated with foreign exchange dealing. Some banks sharply curtailed their trading; others pulled out of the market altogether. Although the immediate effect on international money markets was rather constricting, eventually the markets probably gained strength as a result.

Risks in foreign exchange dealing are as controllable as the risks that banks take in their lending portfolio or other activities. Professional exchange dealers, guided by experienced international money market managers, can reduce foreign exchange risks to acceptable levels. The problem is to identify the risks. This lesson briefly describes some of the special risks associated with foreign exchange dealing.

Financial Risks

Currency Fluctuations

The most obvious risk arises from unexpected changes in currency values. These can be sharp and sudden. In September 1975 the South African rand lost 18 percent in value overnight. In February 1976 the Spanish peseta suffered a 10 percent decline from one day to the next. The Italian lira depreciated by 25 percent over a three-month period in early 1976, and at times its decline was even deeper. Sterling fell 5 percent during a two-week period in mid-March 1976. Even intra-day swings of 1 percent and more, perhaps occurring for no apparent reason, are common with floating rates.

In this kind of environment it is very difficult for an active bank to avoid an occasional trading loss. On the other hand, the size of a bank's risk can be contained by establishing intraday and overnight position limits.

Funding Risks

Another kind of risk occurs when a bank either cannot obtain or must pay exorbitant rates for voernight balances to fund a foreign currency account. This can happen even when the bank does not have a net open position. Perhaps the best example occurred when sterling was devalued in November 1967. On the Friday preceding the weekend devaluation, the whole world was selling sterling, including commercial firms that were selling, say, six months forward, to banks. In the turmoil, the interbank forward market virtually disappeared, and banks evened their net positions by selling sterling spot (value Tuesday) through the market to the Bank of England. That left the banking system long on forward sterling but short of balances for Tuesday. Since the Bank of England had absorbed so much spot sterling and would not (and still does not) permit nonresidents to borrow domestic sterling, a monumental and costly squeeze on external sterling developed. External sterling balances, if they could be found, were lent at rates, which annualized, ran as high as 300 percent. Similar although not as drastic squeezes have occurred several times since-most recently in the French, Belgian and Danish currencies during March 1976.

Operating Risks

There are routine operating risks. During hectic trading, a trader might forget to write a contract, and the net opsition could be incorrect for several days. The wrong rate might be recorded on a contract, and the other party might fail to bring it to the bank's attention. Funds might be misdirected and cause costly overdrafts in nostro accounts abroad; conversely, in Switzerland excess balances incur a steep penalty charge. Such mistakes cost money, but some have to be expected as part of dealing.

Clear, concise management reports can highlight a bank's foreign exchange exposures. One major bank's head office consolidates and reports daily at the close of business each trading center's foreign currency and dollar positions. Individual and total branch positions should be within the limits imposed by the head office, including limits on permissible imbalances in forward books.

Credit Risks

Every foreign exchange contract requires that each party deliver the specified currency at the agreed rate and time. For each party there is the risk that the other will not perform as prescribed and that a cost might be incurred in covering. Thus, "know your customer" is critically important. For this knowledge, the bank trader must look to his institution's credit staff, who in turn must understand the bank's exposure on outstanding contracts.

The following hypothetical example is an illustration of credit risk: The ABA Bank sells 1,000,000 pounds sterling to the Smith Company one year forward at $2.3200 and simultaneously offsets this with a market purchase for the same date at the same rate. Then, 364 days later, spot sterling is $1.9200, and the Smith Company declares bankruptcy. The bank then has an uncompleted sale contract with Smith Company and a contractual obligation to purchase 1,000,000 pounds sterling at a rate of $2.3200. To balance its sterling positon, the bank must sell the spot sterling at $1.9200 — a $400,000 loss on the 1,000,000 pounds contarct.

Business Risks

When a bank undertakes dealing in foreign exchange, it assumes many additional risks that are not present in purely domestic operations. Of course, the size of the operation largely dictates the amount of the risk. A bank may arrange to have just one employee handle customer business and cover every deal with a matching contract through a dealing correspondent. Or a bank can go all the way and open active trading rooms in one or more financial centers. There are major risks associated with the latter course.

There are risks of capital and manpower commitments. Space in financial centers is expensive, as are the communicatinos equipment and computer hardware. Senior professional traders command middle-to upper-bracket salaries. Backroom staff must be trained. A good trading operation ought to be managed by an experienced international money-market specialist and supported by sound international economists and a competent audit staff.

(Adapted from John T. Arnold's "Foreign Exchange Trading Techniques and Controls")

A. GLOSSARY

1. Portfolio — A list of the securities held by an investor. A good portfolio will show a wide spread of investments in order to reduce the risk of loss.
2. Rand — The standard unit of the currency of South Africa since the decimalization of its currency. It is subdivided into 100 cents.
3. Peseta — The standard unit of the currency of Spain. It is subdivided into 100 centimos.
4. Lira (pl. lire) — The standard unit of the currency of Italy. The depreciation of the lira during the past sixty years has reduced it to less than one-fortieth of its former value, so a smaller unit is no longer required. The lira is also the standard monetary unit of Turkey being subdivided into 100 kurus.
5. Intra-day swings — Fluctuations during a day.
6. Position (头寸) — A situation created through foreign exchange contracts (exchange position) or money market contracts (money market position) in which changes in interest rates or exchange rates could create profits or losses for the operator.
7. Net open position — The difference between long positions and short positions in a particular foreign currency, or between the grand total of long and

short positions in all foreign currencies.

8. Value Tuesday — Arrangement by which spot exchanges have to be delivered and paid for on Tuesday.
9. Forward sterling — Sterling for future delivery.
long on forward sterling = long position in forward sterling
10. Squeeze (n.) — Enforced payment or the force used to secure payment.
11. Nostro Accounts — Current accounts of banks with their correspondents in foreign centres in terms of the latter's currencies,, for current requirements of their exchange operations in those currencies. The nostro account of one bank is the vostro account of the other bank.
12. Bracket — A social classification involving an upper and a lower limit.
13. Backroom staff — Scientists, engineers, and research workers.

B. USEFUL WORDS AND EXPRESSIONS

1. Some banks sharply curtailed their trading; . . .
curtail — diminish, shorten in duration or scope
Ex. The banks decided to curtail the working day owing to the hot weather.
2. . . . and banks evened their net positions by selling sterling spot . . .
even — make even or equal
to *even* their net *positions* = to make their net long and short positions equal

3. Clear, concise management reports can highlight a bank's foreign exchange exposures.
   highlight — give prominence to
   Ex.- The novel window display highlighted featured merchandise.
4. ... that a cost might be incurred in covering.
   incur — bring upon oneself, meet with
   Ex. - The speculator incurred heavy losses in the transaction.

C. EXERCISES

1. *Questions:*
   (1) What are the special risks associated with foreign exchange dealing?
   (2) Give an example to describe currency fluctuation risks.
   (3) Give an example to describe funding risks.
   (4) What measures can be taken to minimize operating risks?
   (5) Why should a bank pay close attention to credit risks?
   (6) How should a bank deal with business risks?
2. Translate the following sentences into English:
   (curtail, even, position, incur, identify, highlight, in the absence of)
   (1) 几家商业银行因业务萧条决定削减开支。
   (2) 这家商业银行为了轧平头寸今天买进了1万英镑。
   (3) 这是个有效措施，但必然花钱很多。
   (4) 这份报告单上的字迹模糊不清，很难辨认。

(5) 最近在北京召开的科学讨论会是本星期令人瞩目的大事。

(6) 关于代理行问题，因你方未作答复，我们已与其他银行联系。

3. Translate the following into Chinese:

The point is that if the customer is not in a position to honour his commitment, the loss ends up with the bank. Suppose a customer at some stage in summer 1977 bought dollars against Swiss francs six months forward at 2.38, hoping to be able to selll the dollars at a higher price at maturity; instead, the \$/Sfr. dropped to 1.95. If he is not in a position to take delivery of the agreed quantity of dollars by paying the agreed price of Sfr. 2.38, then the bank is left with those dollars, which it must now sell at the new market price of \$1.95. The bank may thus suffer losses from froeign exchange activities not because it has speculated on its own but because it has been dealing with a poor credit risk.

4. Translate the following into English:

银行应顾客需要买进或卖出远期外币后，如顾客不履行诺言，银行会在汇价涨落中遭受损失。所以银行为保障自身利益，对这种外汇交易需与顾客正式订约，但有时即使订约，还会因顾客到期无力履行，使银行承担风险。因此银行坚持要求顾客付一定比率的保证金（margin），记在专户上，并照计利息。

Lesson 19

Forecasting And Monitoring Foreign Exchnge Rates

It is in fear and trepidation that one mentions 'forecasting' since it seems synonymous with crystal-ball gazing and associated with speculation and gambling. Foreign exchange dealers as well as exposure management exponents will decry a formal forecasting approach as a waste of time and energy. Why this should be is difficult to understand. To say the least, all financial, if not in fact all business, decisions require a degree of risk-taking and forecasting. So why not forecast exchange rates, or at lesat make an attempt to do so?

If a biscuit manufacturer imported a special ingredient to give his products that extra special taste, he would not be considered a speculator if he covered the exchange risk only at the time of payment. Imprudent, possibly, but he would not be a speculator if he followed the same procedure for every consignment. What would be wrong then if our biscuit king developed an understanding of the economic and financial condition of the country from which he imports the ingredient? And then applies this knowledge in his foreign exchange decisions: 'I'll cover in the forward market because the currency is going to strengthen' or alternatively 'As the currency is bound to weaken I am going to postpone covering the risk.' This would be no different to making a decision to stock up with flour because he feels the price is bound to go up. In other words, a decision about foreign exchange is just another business decision.

Obviously, forecasts can never be 100 per cent accurate. The best one can hope to achieve is to anticipate the direction in which a currency rate will move, but that may well be sufficient for most exchange rate decisions. Some ardent critics of forecasting techniques, and forecasting in general, like to point out that an individual cannot beat the market, but this view is disproved day after day by professional dealers and operators in multi-national companies: they are not out to speculate but to improve their company's preformance. Multi-national companies, without a doubt, should apply all the available techniques to increase their earnings and to lessen exposure risks, and forecasting is one of the techniques that should be used. To implement or not to implement techniques or practices should be a deliberate decision which must be subject to revision from time to time.

Anyone wishing to go in for forecasting will have first to evaluate the benefits and the quality of the forecast required, and accordingly calculate the time and manpower that can be allocated to it. One of the first requirements to make possible the construction of a forecasting model is that the exchange rates both for spot and forward transactions are montiored, if not daily then at least noce a week. The rates can be obtained from newspapers and friendly dealers, and are also useful in negotiating contracts and thus enabling marketing men and buyers to establish the right prices for imports and exports. Though the forward rates tend to reflect the effective interest rates for a currency most of the time, when the effective interest rates rise or fall more than similar movements in the domestic market this can be an important early indicator of the market's opinion of the currency's future.

With some qualifications, the balance of payments should be the most important input, as the in-and out-flows will affect the foreign reserves. Other information which should be evaluated is of course the trade balance, invisibles, inflation levels, money supply and any other fiscal or monetary statistics which could affect the currency's external value or even create a fundamental currency disequilibrium.

Political or social events or changes will also have to be interpreted, as any significant changes may eventually also affect the exchange rate. One does not have to be an expert forecaster to reach the conclusion that constant and substantial balance of payments deficits will necessitate a currency realignment, but, expert or amateur forecaster, the evaluation of non-economic events will be the most difficult aspect of prediction. A sudden change in government is not something that can be anticipated and this may compel the forecaster to revise his view.

Once the executive in charge of the forecasting project has familiarized himself with foreign exchange techniques, economic theory and possibly some mathematical probability studies, he can do some crystal-ball gazing. Initially it may be sufficient to make some very short-term predictions of periods of one to three months. Forecasts for less than one month will rarely be accurate, as short-term factors can influence the exchange rate too greatly. If he finds that his forecast is widely off the mark, but that he judged the trend correctly, he has achieved a worthwhile result. The best any forecast can do is to be right about the trend, and if for instance the forecast indicated that covering operations should be postponed and the eventual rate justifies this action the forecasting effort is not wasted.

Several attempts were made a few years ago to use the input of foreign exchange dealers and by averaging all the anticipated exchange rates establish the market consensus as to future exchange rate levels. For example, if the current exchange rate for sterling was 2.40 and on average all the participating dealers expected the rate to be 2.43 in three months' time, and then the spot rate turned out to be 2.41 the forecast was widely off the mark. However, the trend had been interpreted correctly which was at least one positive contribution. Obviously, if a number of exchange dealers in the large banks are of the opinion that an exchange rate is bound to move in one direction their combined actions in the market place may well help to fulfil the prophesy.

In a very simple forecast model, the allocatin of numerical values to some of the components can greatly simplify the work of the forecaster. A substantial divergence from the norm set by the forecaster would be sufficient indication to review the input and if this proves to be correct, it may be warning signal that something is amiss.

The points to look for when studying devaluation-or revaluation-prone currencies are similar, but if a definite tendency has been established it will be necessary to give attention to specific items. For example, for a devaluation-prone currency the relationship between reserves and total imports will have to be