全国应用型本科商务英语系列规划教材

外汇英语

Foreign Exchange English

孙圣勇 编著

对外经济贸易大学出版社
University of International Business and Economics Press

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出 版 说 明

经济贸易的蓬勃发展为我国高校商务英语专业建设提供了难得的机遇，也提出了更多的挑战。为了更好地推动全国应用型本科院校商务英语专业的发展，对外经济贸易大学出版社组织编写了这套“全国应用型本科商务英语系列规划教材”。

面对经济全球化和中国加入世界贸易组织（WTO）之后社会对人才需求的新形势，高等院校本科商务英语的人才培养应该定位在“培养德、智、体、美、全面发展，英语语言基础扎实，具有较强的英语交际能力，具备基本的商务与文秘知识和业务能力，知识面宽，具有创新精神，知识、能力、素质协调统一，面向经贸、外事、涉外企业、跨国公司、教育等行业，能从事国际商务策划、国际商务谈判、国际贸易、国际金融、国际市场营销、高级商务翻译、教学、科研及管理工作的高级应用型专门人才”。

本系列教材面向全国应用型本科院校，以培养学生的商务英语应用能力为目标。教材编排均根据全国应用型本科院校课程设置而定，适用于应用型本科院校商务英语专业、财经专业和英语专业商务/应用/外贸外语方向的学生。内容包括：《商务英语综合教程 1-4》《商务英语听说》《商务英语口语》《商务英语口译》《商务英语阅读》《商务英语写作》《外贸英语函电》《商务英语翻译》《商务英语谈判》《商务知识导读》《国际经贸文章选读》《跨文化交际基础》《国际商务礼仪》《进出口贸易实务》《国际商务制单》《国际贸易理论与实务（英文版）》和《外汇英语》等。

本系列的编撰者们不仅具有丰富的语言教学经验，而且具备商务活动的实践经验，他们集教学经验和专业背景于一身，这是本套教材编撰质量的有力保证。

此外，本套教材配有辅导用书或课件等立体化教学资源，供教师教学参考。

对外经济贸易大学出版社
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FOREWORD

Foreign exchange is an important and interesting topic in the field of international trade and international finance. This publication is a perfect combination of English theories, operations and exercises of foreign exchange. It's a new academic product of business English study.

This publication includes ten chapters altogether covering the summarization of foreign exchange, foreign exchange transaction, Chinese foreign exchange market, exchange rate forecast, foreign exchange regulations, exchange rate system, exchange rate change, foreign exchange risk, foreign exchange financing and exercises.

Having worked in Guangdong professional international trade company for more than 10 years, in Guangdong provincial large-size state-owned enterprise group as board secretary for 3 years and in higher education institutions for 10 years, I got my Master degree in Hunan University and my Doctor degree in Wuhan University, got the Senior Translator qualification (professor-class) issued by the Ministry of Human Resources and Social Security of the People's Republic of China, have written 11 books and over 70 academic essays independently and got them published in the past years.

This publication is suitable for the students majoring in international trade, business English and international finance in Chinese institutions of higher learning, for those who are going in for international trade business, who make their research in international trade, business management and who show interest in international trade, foreign exchange, enterprise management and business English and especially for those who are going to participate the national foreign exchange analyst qualification tests.

Sun Shengyong

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Chapter One Summarization of Foreign Exchange

In international life, the foreign exchange rate is not always stable and constant. If the RMB becomes stronger, then foreign goods and services become cheaper for China, while goods and services from China will become more expensive for foreigners, causing import rise and export decline. We call it currency revaluation. But if the RMB becomes weaker, then imported goods and services become more expensive, while Chinese goods and services become relatively cheaper. So we called it currency devaluation.

Unit One Foreign Exchange

So long as foreign exchange is studied and controlled, the balance of international payments can be maintained, and the healthy development of the national economy can be promoted. In China the foreign exchange control authority of the State Council and their branches fulfill the duty of controlling foreign exchange according to law.

1. Concept of foreign exchange (FE)

Foreign exchange is the act of trading different nation's moneys, also refers to holdings of foreign currencies and foreign-currency-dominated financial assets, namely, methods and instruments used to adjust the payment of debts between two nations that employ different currency systems[①].

① http://encyclopedia2.thefreedictionary.com/Foreign+Exchange.

2. Means of foreign exchange in our country

Means of foreign exchange refer to the following means of payments and assets expressed in foreign currencies and used for international liquidation: foreign currencies, such as paper money and coins; foreign currency pay orders, such as bills, bank deposits, and postal savings deposits; foreign currency negotiable securities, such as government bonds, company bonds, and stocks; special drawing rights and European Currency Units and other foreign exchange assets.

3. Characteristics of foreign exchange

Foreign exchange possesses three features. The first is convertibility[①]. This is the state of or the ease with which a currency may be exchanged for a foreign currency. Currency convertibility is vitally important in the foreign exchange market; higher convertibility means that a currency is more liquid and, therefore, less difficult to trade. Factors affecting convertibility include the availability of foreign currency reserves in a given country and domestic regulations seeking to protect local investors from bad investment decisions in, say, a currency undergoing a period of hyperinflation.

The second is acceptability. The third is liquidity[②], which means the quality of being readily convertible into cash.

4. Foreign exchange on current accounts

Current account[③] is an account at a bank or building society against which checks may be drawn at any time, whose US name is checking account and whose Canadian name is chequing account.

The current account is primarily composed of merchandise exports and imports and service exports and imports. A key component of the current account is the balance of trade, which is simply the difference between merchandise exports and merchandise imports. A deficit of the balance of trade represents a greater value of imported goods than exported goods. Conversely, a surplus reflects a greater value of exported goods than imported goods. Merchandise exports and imports represent tangible products, such as computers and clothing, which are transported between countries. Service exports and imports represent services, such as legal, insurance, and consulting services provided for customers based in other countries. Thus, service exports by

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① http://fin http://www.thefreedictionary.com/liquidity.

② http://www.thefreedictionary.com/liquidity.

③ http://www.thefreedictionary.com/current+accounts.

the United States result in an inflow of funds to the United States, while service imported by the United States result in an outflow of funds from the United States.

Another component is factor income, which represents income received by investors on foreign investments in financial assets (securities). Thus, factor income received by the United States reflects an inflow of funds into the United States. Factor income paid by the United States reflects an outflow of funds from the United States.

In China, the domestic institutions are obliged to bring home the current account incomes of foreign exchange instead of depositing them abroad without authorization violating the related regulations of the State.

The domestic institutions are obliged to sell the current account incomes of foreign exchange to designated banks in light of the State Council regulations on the management of buying, selling and paying foreign exchange, or open a foreign exchange account in designated banks upon approval.

The current expenditures of foreign exchange of domestic institutions are obliged to be paid with the foreign exchange bought from designated banks with valid vouchers and commercial bills, in accordance with the State Council regulations on the management of buying, selling and paying foreign exchange.

The check-off formalities on collection of foreign exchange from exports and payment of foreign exchange for imports are obliged to be gone through by the domestic institutions according to the State regulations on the management of the check-off of foreign exchange earnings from exports and the management of the check-off of foreign exchange expenditures for imports.

Individual owners of foreign exchange can hold the present foreign exchange by themselves, deposit them in banks, or sell them to designated banks of foreign exchange. The principle of voluntary to deposit, freedom to withdraw, payment of interests to deposits, and keeping secret for depositors shall be carried out for the deposition of foreign exchange by individuals.

The purchase of foreign exchange by individuals for private purposes should be granted without exceeding the specific limit. Individuals may apply to the foreign exchange control authority for buying foreign exchange over the limit for private purposes, and the application for such purchase shall be approved by the foreign exchange control authority if it is proved to be true. When they come into or go out of China, individuals, who carry foreign exchange with them, should go through declaration procedures with the Customs. Those, who go out of China carrying more than prescribed amounts of foreign exchange, must also present valid documents to the Customs. After they have emigrated but income is derived from possession of assets in China, individuals should remit or carry foreign exchange abroad upon the presentation of the specified certifying documents and valid vouchers at the designated banks of foreign exchange. Without approval from the foreign exchange control authority, the foreign exchange pay orders, foreign exchange negotiable securities, and other forms of foreign exchange assets held by citizens residing in China cannot be carried or sent abroad.

The legitimate income in RMB of foreign institutions and personnel in China, if it needs to be remitted abroad, has to be granted upon the presentation of the related certificate documents and credence at the designated banks of foreign exchange. The foreign exchange of foreign organizations and individuals entering into China received or taken from abroad can be kept by themselves, deposited in banks, and also sold to banks designated of foreign exchange. They can also be remitted or carried abroad on the basis of the valid vouchers.

5. Foreign exchange on capital account

Capital account[①] is that part of the balance of payments recording a nation's outflow and inflow of financial securities. The domestic enterprises' foreign exchange incomes of capital account are obliged to be brought back to the homeland unless otherwise provisioned by the State Council. These incomes of capital account have to be deposited into bank accounts, which are opened with designated banks of foreign exchange according to the relevant State regulations. If they want to sell foreign exchange to the designated banks of foreign exchange, they should be approved by the foreign exchange control authorities.

The capital account is segmented by direct foreign investment, portfolio investment, and other capital investment. Direct foreign investment represents the investment in fixed assets in foreign countries that can be used to conduct business operations. Examples of direct foreign investment include a firm's acquisition of a foreign company, its creation of a new manufacturing plant, or its expansion of an existing plant in a foreign country.

Portfolio investment represents transactions involving long-term financial assets (such as stocks and bonds) between countries that do not affect the transfer of control. Thus, a purchase of Heineken (Netherlands) stock by a U.S. investor would reflect portfolio investment because it represents a purchase of foreign financial assets, while control of Heineken's operations is unchanged. If all of Heineken's stock was purchased by a U.S. firm as the result of an

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① http://www.thefreedictionary.com/capital+account.

acquisition, this transaction would result in a transfer of control and therefore would be classified as direct foreign investment instead of portfolio investment.

In addition to direct foreign investment and portfolio investment, other capital investment is another component of the capital account, which represents transactions involving short-term financial assets (such as money market securities) between countries. In general, direct foreign investment measures the expansion by firms in foreign operations, while the portfolio investment and other capital investment measures the net flow of funds due to financial asset transactions between individual or institutional investors.

If a domestic enterprise makes investment in a foreign country, before it applies to competent department for examination and approval, the source of its foreign exchange funds should be examined by the foreign exchange control authorities. After being approved, the relevant remitting procedures have to be gone through according to the stipulations of the State Council on the management of foreign exchange used for investment in foreign countries.

The borrowing of foreign loans is handled by the government departments approved by the State Council or the financial institutions and enterprises approved by the foreign exchange control authority of the State Council according to relevant regulations of the State. This borrowing of foreign loans by foreign-funded enterprises should be reported to the foreign exchange control authority for records.

Unit Two Exchange Rate

The use of foreign exchange arises because different nations have different monetary units, and the currency of one country cannot be used for making payments in another country. Because of trade, travel, and other transactions between individuals and business enterprises of different countries, it becomes necessary to convert money into the currency of other countries in order to pay for goods or services in those countries. The transfer of money values from one country to another and the determination of the price at which the currency of one country will be surrendered for that of another constitute the main problems of foreign exchange.

1. Concept of the exchange rate

The exchange rate is the price of one country's money in relation to another's. Exchange rates may be fixed or flexible. An exchange rate is fixed when two countries agree to maintain a fixed rate through the use of monetary policy[①]. An exchange rate is a relative price that indicates the price of one currency in terms of another. The exchange rate is also called the bilateral exchange rate.

2. Quotation of the exchange rate

2.1 Direct quotation

Direct quotation expresses how many native currency units it takes to purchase one unit of a foreign currency, for example, in the USA, 1GBP=?USD; in China,1USD=? RMB, 1CAD=? USD, 1JPY=?RMB, 1HKD=?USD and 1GBP=?RMB.

Direct Quotation is the dominant method.

2.2 Indirect quotation

Indirect quotation expresses how many foreign currency units it takes to purchase one native currency unit, for example, in the USA, 1 USD =? GBP; In China,1RMB=?USD; 1 USD =? CAD; 1RMB=?JPY; 1 USD =? HKD and 1RMB=?GBP.

2.3 US dollar quotation

US dollar quotation expresses how many foreign currency units it takes to purchase one or one hundred US dollar, excluding the GBP, AUD, NZD, EURO, and SDR.

In the international FEM, the US dollar quotation is usually used.

3. Other concepts of the exchange rate

3.1 What does it mean when a currency has appreciated?

It means an increase in the value of one currency with respect to another. This means that one unit of the appreciating currency buys more units of the other currency than it did previously. While this can be a good sign, as it may indicate a low rate of inflation, it also makes exports from the country with the appreciating currency more expensive, while making imports less expensive[②]. It is currency appreciation or premium.

3.2 What does it mean when a currency has depreciated?

It means a decrease in the value of a currency with respect to other currencies. This means that the depreciated currency is worth fewer units of some other currency. While depreciation means a reduction in value, it can be advantageous as it makes exports in the depreciated currency less expensive. For example, suppose one unit of Currency A is worth one unit of Currency B. If Currency A depreciates so that it becomes worth half of one unite of Currency B,

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① http://encyclopedia2.thefreedictionary.com/Foreign+exchange.

② http://financial-dictionary.thefreedictionary.com/Currency+Appreciation.

then exports denominated in Currency A are only half as expensive when trading in a Currency B market. It is currency depreciation or discount.

3.3 What does it mean when a currency has PAR?

It is of equal value. The word is often used in relation to pegged currencies; that is, if one currency pegs itself to another at par, it means that the central bank has declared that the currencies are of equal value[①].

4. Types of the exchange rate

4.1 Spot exchange rate (SR) & forward exchange rate (FR)

4.1.1 Spot exchange rates

Spot exchange rates are the market prices of foreign exchange in the spot market. They are the exchange rates[②] for which two parties agree to trade two currencies at the present moment. The spot exchange rate is usually at or close to the current market rate because the transaction occurs in real time rather than at some point in the future. Some analysts believe that forward rates are an accurate predictor of future spot rates, though many others dispute this.

4.1.2 Forward exchange rates

Forward exchange rates are the market prices of foreign exchange in the forward market. A forward exchange rate is the agreed-upon exchange rate[③] for a forward contract on a currency. When a forward contract is made, the parties agree to buy/sell the underlying currency at a certain point in the future at a certain exchange rate. The rate is negotiated directly between the parties, unlike a futures contract, which trades on an exchange. Partly because there is little secondary market for forward contracts, determining the forward foreign exchange rate is a zero-sum game: one party will gain on the contract and one will lose, depending on the movements of the relevant currencies between the formation of the contract and its maturity.

4.1.3 How can we calculate the forward exchange rate?

The first quotation is outright rate quotation. An outright rate refers to the exchange rate[④] on an outright forward. An outright forward is a forward contract in which a party agrees to buy a currency from another party at some definite point in the future at a given exchange rate. This exchange rate is an outright rate. Japan and Switzerland are adopting this quotation.

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① http://financial-dictionary.thefreedictionary.com/Par.

② http://financial-dictionary.thefreedictionary.com/Spot+Exchange+Rate.

③ http://financial-dictionary.thefreedictionary.com/Forward+Exchange+Rate.

④ http://financial-dictionary.thefreedictionary.com/Outright+Rate.

The second quotation is swap or point rate quotation. Traditionally, swap refers to the exchange of one security for another for the purpose of changing the maturity (bonds), the quality of issues (stocks or bonds), or one's investment objectives. Swaps include currency swaps and interest rate swaps. There are 3 kinds concretely, e.g.

Fixed Day: 3.15—6.15(3mth)

Fixed Month: 3.15—6.1～6.30(3mth)

Flexible Day: 3.15—3.17～6.15(3mth)

Swap is connected with forward exchange contracts. Forward currency contract[①] is an agreement between two parties to exchange two currencies at a given exchange rate at some point in the future, usually 30, 60, or 90 days hence. A forward currency contract mitigates foreign exchange risk for the parties and is most useful when both parties have operations or some other interest in a country using a given currency. Forward currency contracts are over-the-counter contracts.

4.2 Nominal exchange rate(NER) & real exchange rate(RER)

Nominal exchange rate is the official quote of an exchange rate[②]. For example, when one changes dollars for pounds, the bank lists an exchange rate of, say, two dollars for one pound. This is the nominal exchange rate. While this indicates the number of pounds one receives for a dollar (or vice versa), it does not show the purchasing power of the pound versus that of the dollar. In another word, nominal exchange rate is a bilateral exchange rate that is unadjusted for changes in the two nation's price levels.

Real exchange rates refer to the purchasing power of two currencies relative to one another[③]. While two currencies may have a certain exchange rate on the foreign exchange market, this does not mean that goods and services purchased with one currency cost the equivalent amounts in another currency. This is due to different inflation rates with different currencies. Real exchange rates are thus calculated as a nominal exchange rate adjusted for the different rates of inflation between the two currencies, i.e., real exchange rate is a bilateral exchange rate that has been adjusted for.

4.3 Effective exchange rate (EER) & real effective exchange rate (REER)

The EER is a measure of the weighted-average value of a currency relative to a selected

① http://financial-dictionary.thefreedictionary.com/Forward+Exchange+Contract.

② http://financial-dictionary.thefreedictionary.com/Nominal+Exchange+Rate.

③ http://financial-dictionary.thefreedictionary.com/Real+exchange+rates.

group of currencies based on the NER.

The REER is a measure of the weighted-average value of a currency relative to a selected group of currencies based on their real exchange rate(RER).

How to construct an effective exchange rate?

The first step is to choose a basket of currencies (currency basket).

The second step is to choose base year.

The third step is to assign weights for the currencies in the basket.

For example, if we need to know the US dollar effective exchange rate in 2006, we must first choose the currency basket. Then we have to select a year as a base year. Finally, we need to know the foreign trades among those countries in order to assign the weights for the related currencies

a. US dollar, Canadian dollar, Japanese yen.

b. base year: 2004

c. determining weights

X: export M: import Wb: bilateral weight

Xcn: exports of US to Canada

Mcn: imports of US from Canada

So, Xcn + Mcn = total trade of US with Canada

XJ + MJ = total trade of US with Japan

Now we can calculate the weight assigned to the Canadian dollar which is:

$$Wcn = (Xcn + Mcn) / [(Xcn + Mcn) + (XJ + MJ)]$$

This weight represents the trade of the United States with Canada as a fraction of the total trade of the United States with Japan and Canada.

The weight assigned to the Japanese yen is:

$$WJ = (XJ + MJ) / [(Xcn + Mcn) + (XJ + MJ)]$$

Suppose : US exports to Canada were \$160,900 (2004)

US imports from Canada were \$209,087 (2004)

US exports to Japan were \$51,449 (2004)

US imports from Japan were \$ \$121,428 (2004)

$$Wcn = (160{,}900 + 209{,}087) / [(160{,}900 + 209{,}087) + (51{,}449 + 121{,}428)] = 0.68$$

$$WJ = (51{,}499 + 121{,}428) / [(160{,}900 + 209{,}087) + (51{,}499 + 121{,}428)] = 0.32$$

The weights always sum to one.

We usually treat the value of the base year as 100% of the base year. We try to know the value of the current year compared with the base year. As we know the value of the dollar in terms of Canadian dollar was 1.40 in 2004 and 1.45 in 2006, this means the value of the dollar in 2006 was 103.6% (1.45/1.40) of the 2004 value. By the same token, the value of the dollar in terms of Japanese yen in 2006 was 98.9% (119.20/120.48) of the 2004 value. The effective exchange rate for 2006 was:

$$EER2006 = [(0.68)(1.036) + (0.32)(0.989)]\times 100 = 102.1$$

The value indicates that the average value of the US dollar against the Canadian dollar and the Japanese yen for 2006 was 102.1% of the value for 2004. Therefore, the dollar was "stronger" generally.

What if we are interested in constructing the real effective exchange rate? We have to use the real exchange rate instead of the nominal exchange rate. It means that we have to convert each nominal exchange rate in the currency baskets we have chosen to a real exchange rate. We then would complete the remaining calculations as described earlier.

5. Exchange rate determination

The exchange is determined by the Purchasing Power Parity (PPP), i.e., the law of one price. It states that a product that is easily and freely traded in a perfectly competitive global market should have the same price everywhere, once the prices at different places are expressed in the same currency. ($Pd= Sd/f \cdot Pf$)

If the same commodities have different prices in different places, people will begin to take advantage of it by buying commodities in the cheaper market and then shipping them to and selling them in the more expensive market. People who buy in one market and sell in another are commodity arbitragers.

5.1 Absolute purchasing power parity

The PPP states that, ignoring transportation costs, tax differentials, and trade restrictions, traded homogeneous goods and services should have the same price in two countries after converting their prices into a common currency. Thus, purchasing power parity is often called the law of one price.

We can formalize and express absolute PPP as follows. Let Sd/f denote the spot exchange rate. Let Pd denote the domestic price level and Pf denote the foreign price level. Then we can express absolute PPP as