

LOCKED & LOADED

Options to manage your exchange rate risk.

In today's volatile foreign exchange market, a business with international transactions should consider having some form of exchange rate risk management in place. Despite the reluctance by some businesses to use these products, they have become fundamental risk management tools.

At Lock Finance, there are several "tools" importers and exporters can use to manage exchange rate risk for their international transactions.

Forward Contracts
The most commonly used is the Forward Contract, which allows a business to buy or sell a foreign currency at a fixed rate for delivery at a specific future date.

In one example, an importer client of Lock Finance who purchases from Chinese suppliers booked a Forward Contract in US dollars. By entering into the Forward Contract to buy US dollars in advance, he managed to save himself approximately NZD\$2,800 in a US\$100,000 transaction.

Stop Loss Contracts
Besides using Forward Contracts, clients can also use the Stop Loss Order offered by Lock Finance to minimise losses on currency positions. While a Forward Contract helps a client lock in the preferred exchange rate going forward, a Stop Loss order prevents larger-than-expected losses for an open exchange rate position.

In a Stop Loss Order, a client can provide a "floor level"

indicating how much loss they are prepared to take if a currency they want moves against them.

The Stop Loss Order provides a mechanism where, say, an importer can buy their US dollars at a desired rate but also stop losses in case the currency moves too much against his desired rate.

Competitive rates
Trade supervisor Melissa Yap says Lock Finance offers clients competitive rates, quick confirmations and flexible rates for bulk orders.

If you have any queries regarding your current Trade Finance facility, contact Melissa Yap on (09) 375 8514, Brenton Cullen on (09) 375 8515, or Jennifer Trounce on (09) 375 4262

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- How Lock Finance helped Adtraction with flexible solutions
- Gravity may soon catch-up with the NZD/USD

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To find out more about Lock Finance's Trade Finance products, visit: www.lockfinance.co.nz or call 0800 ASK LOCK (0800 275 562)

CEO COMMENT

Greetings! As the world debates the global climate change issues and eyes are fixed on the US presidential race, New Zealand has been relishing Scott Dixon's Indy 500 victory. This talented young man has had 12 career wins on the Indy Car circuit, including the recent Indianapolis 500. He truly did the nation proud. Further to that, the All Blacks had decisive wins over England in the last two test matches. Let's hope they continue their winning streak in the Tri Nations. The other positive side to all the bleak news about petrol prices going over the top is the outstanding performance of New Zealand Dairy Industry. I must say that it is a pity we all don't have a shareholding in "Dairy Inc".

The current business environment is without a doubt tough. But let's remember that we have been there before and good businesses will shine through, even during difficult times. Economic difficulties often force companies to be smarter in how they operate. This is the time to explore new markets, review suppliers, and revisit old clients. Very often, the most innovative solutions or most lucrative relationships develop during times of crisis. As always, good cashflow management remains the key to keeping a business healthy.

As a pro-active financier, our role is to be your support as you push those boundaries. We are prepared to back proposals that we think have a future. It is easy to be a "fair weather" financier when the going gets tough, but at Lock Finance we believe in supporting our clients when they come to us with feasible business plans.

We will also not shy away from encouraging clients to make the hard decisions when they are needed. As always, for your financiers to be of any real help, open communication is crucial. I encourage you to talk to your account manager about any concerns. We are here to support you through the challenges and the growth.



Gerard van Tilborg
CEO & Director, Lock Finance

USEFUL LINKS

GENERAL BUSINESS

www.businessday.co.nz
Business News and Updates

www.sra.co.nz
Strategic Risk Analysis Limited

www.businessmentor.org.nz
Financial News and Insight

www.rbnz.govt.nz
Reserve Bank of New Zealand

TEXTILES

www.apparelsearch.com
Apparel and Textiles News

www.atito.org.nz
Apparel and Textile Industry Training Organisation

www.textilesnz.org.nz
New Zealand Textile Industry Organisation

EXPORT

www.marketnewzealand.com
Market New Zealand

www.nzeco.govt.nz
NZ Export Credit Office

www.nztc.co.nz
New Zealand Trade Centre

CASE STUDY



“Flexible” is beautiful for Adtraction’s financing needs

Challenge:

Adtraction Marketing needed a form of financing that was flexible and cost effective.

Situation:

Traditional overdraft facilities were not suitable for the company as its cashflow needs varied significantly.

Solution:

Lock Finance provided a package that enabled the company to use its financing as and when it needed, at a cost effective rate.

Adtraction Marketing, formed four years ago, is based in Wellington. The company specialises in the area of directory advertising, recruitment advertising and web design. It is built around a high-service business model. Pursuing a wide client base is not as crucial as delivering sterling services to a niche market of blue chip clients.

For niche advertising agency Adtraction Marketing Ltd, finding a way to leverage its business growth using a cost effective financing facility is a critical part of its business management.

Founder Greg Hughes says: “The cashflow nature of our business was such that we needed to be able to have the flexibility to draw on cashflow whenever we wanted to. The quantum of financing that we needed could vary in amounts quite significantly, hence the traditional form of overdraft financing was not suited for us.”

“Lock worked out a package where we could draw on our funding when we needed it. It is kind of like being able to turn a tap on and off.”

He says he was suitably impressed with the “out-of-the-box” solution provided by Lock.

To find out more about Adtraction Marketing Limited, visit www.adtraction.co.nz

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“It makes a huge difference to us, to have our finance company’s support. They are easy to work with, and very flexible - which really helped”

”

Gavin Austin

Chief Executive, Company Health Services Limited

What really drives the NZD/USD

Gravity should come to bear on the NZD/USD over the next couple of years which will be music to exporters' ears and represents a call to action for importers.

Most economists have predicted an imminent fall in the NZD ever since it increased above the historical average level in 2004. And only four years later gravity may not be far off bringing the Kiwi back to earth.

The chart shows that the cycles in the NZD/USD (the blue line) have a high correlation with the cycles in NZ relative to US economic activity (NZ/US GDP – the gold line). The best fit is with NZ/US GDP leading the exchange rate by nine months (the gold line has been advanced by nine months).

Despite a sharp downturn in the NZ economy this year the NZD/USD has held up because the US economy also nosedived, leaving NZ/US GDP largely unchanged.

Some US indicators are showing signs of bottoming out and at some stage in the not too distant future the massive stimulus to the US economy should bear fruit. By contrast, the RBNZ needs to ensure growth remains below average for a protracted period to solve the domestic inflation problem.

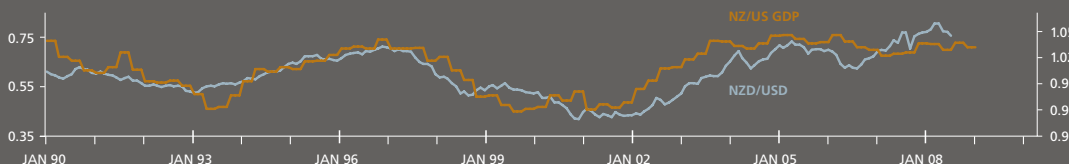
The economic tide could well be turning in favour of a lower NZD.

Exporters may not be too many months from experiencing some relief although major relief may not arrive until 2009-10. While from a positive perspective for importers, they still have a chance to lock in some medium-term and long-term cover before the Kiwi bites the dust

By Rodney Dickens

Managing Director & Chief Research Officer
Strategic Risk Analysis Limited

Visit www.sra.co.nz to learn more about what drives the NZD/USD.



The NZD/USD is the left scale. The gold line shows NZ relative to US GDP and has been shifted to the right by nine months as a leading indicator of major cycles in the NZD/USD, with a correlation of 0.79.



Manage exchange rate risk by locking in your exchange rate now for future transactions/purchases.



Debtor Funding growing fast in Australia and New Zealand

LOCK FINANCE IS A MEMBER OF IFD (THE INSTITUTE FOR FACTORS AND DISCOUNTERS OF AUSTRALIA AND NEW ZEALAND).

The IFD was formed in 1994 to represent the major providers of the fast growing financial services of Factoring and Discounting. Recent IFD statistics show this sector has grown rapidly reaching a turnover of \$55 billion in 2007 from just \$5 billion in 2001.

The rapid growth of Debtor Finance over the last decade has been propelled by the significant increase in the number of funding providers in the market. Factoring and Invoice Discounting helps small and medium-sized businesses fund their operations by effectively turning their sales into cash. Due to the growing numbers of interest in these products, the IFD now provide training courses and accreditation for the industry.



OUR EXTENSIVE EXPERIENCE IN INTERNATIONAL TRADE, INCLUDING INTERNATIONAL PAYMENTS MEANS WE CAN OFFER A FULL RANGE OF TRADE FINANCE PRODUCTS THAT ARE SUPPORTED BY AN INDIVIDUALLY FOCUSED SERVICE.

The cost of holding stock or waiting for stock to arrive from overseas can slow sales growth. Our trade finance facilities enable you to access cash tied up in debtors and stock, effectively bringing future profits into your business for use today.

This is ideal for companies who need to smooth out cashflow fluctuations after paying offshore suppliers and before receiving funds from local customers.

We know the New Zealand commercial business finance industry inside out. Our people are very experienced, highly skilled and have a comprehensive understanding of the funding needs of small to medium enterprises.

They work hard to understand the issues faced by individual businesses and deliver a personalised service based on developing a long-term partnership.

We have developed a positive company culture and our size means that we are extremely flexible and responsive.

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