

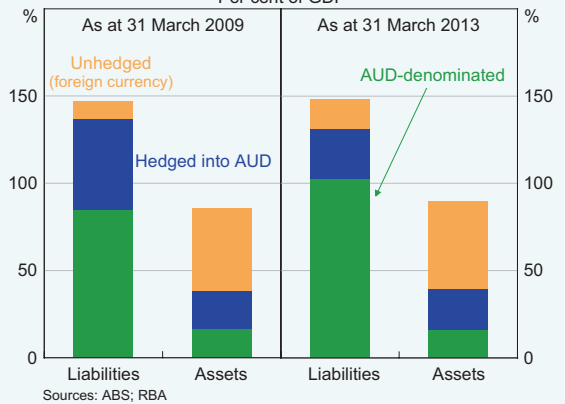
Box A

Foreign Currency Exposure and Hedging in Australia

The Australian Bureau of Statistics survey of Foreign Currency Exposure (FCE) contains detailed information on Australian entities' foreign currency asset and liability positions and their use of derivatives to hedge these exposures.¹ The Reserve Bank initiated and has provided funding for the FCE survey every four years since 2001, with the most recent survey collecting information as at the end of March 2013.² The 2013 survey includes additional information about respondents' use of derivatives for hedging purposes and, in particular, the hedging of foreign currency denominated debt security liabilities.

As at the end of March 2013, Australian entities had a net foreign liability position equivalent to 58 per cent of GDP.³ However, even before the use of derivatives to hedge foreign currency exposures is taken into account, Australian entities had a net foreign currency asset position equivalent to 27 per cent of GDP, as most foreign liabilities are denominated in Australian dollars whereas most foreign assets are denominated in foreign currencies (Graph A1). Information from the 2013 FCE survey indicates that after accounting for derivatives used for hedging purposes, this net foreign currency asset position increases to the equivalent of a little more than 30 per cent of GDP, in turn reflecting a higher share of foreign currency liabilities that are hedged (63 per cent) compared with foreign currency assets

Graph A1
Currency Composition of Australia's External Position
Per cent of GDP



(31 per cent). While the 2009 FCE survey indicated a slightly higher net foreign currency asset position after hedging (37 per cent of GDP), the data are not directly comparable owing to a number of survey design changes.⁴

By sector, the 2013 FCE survey shows that banks had a net foreign currency liability position equivalent to 13 per cent of GDP before hedging, or 7 per cent of their total financial assets (Graph A2). However, after taking into account the use of hedging derivatives, banks had a small net foreign currency asset position (reflecting a 56 per cent hedging ratio for foreign currency assets and a 76 per cent hedging ratio for foreign currency liabilities).

Other financial corporations – which include superannuation funds, fund managers and insurance corporations – had a net foreign currency asset

1 See ABS (2013), 'Foreign Currency Exposure, Australia, March Quarter 2013', ABS Cat No 5308.0. A more detailed discussion of the results of the survey will be included in the RBA's December 2013 *Bulletin*.

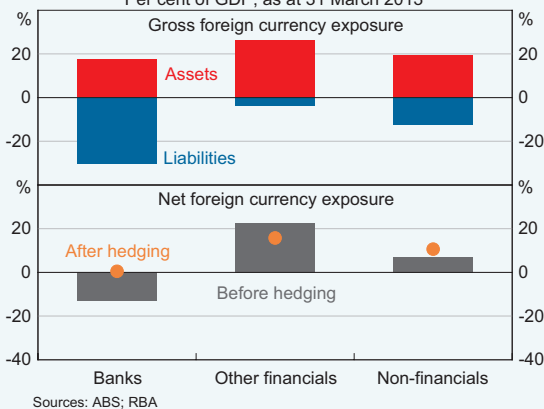
2 For a discussion of the results of the 2009 survey, see D'Arcy P, M Shah Idil and T Davis (2009), 'Foreign Currency Exposure and Hedging in Australia', RBA *Bulletin*, December, pp 1–10.

3 The 2013 data presented in this box are based on the March 2013 vintage of Australia's International Investment Position data, while the 2009 data are based on the March 2009 vintage.

4 The 2009 data are based on information collected about a sample of firms' usual hedging policies, whereas the 2013 data are based on information specifically relating to the actual use of derivatives for hedging purposes.

position before hedging equivalent to 22 per cent of GDP, with the use of hedging derivatives reducing this to around 16 per cent of GDP.

Graph A2
Foreign Currency Exposure by Sector
 Per cent of GDP, as at 31 March 2013



The 2013 FCE survey collected additional information on the extent to which the debt security component of foreign currency liabilities is hedged using derivatives, and the degree to which the maturities of these hedges are matched to the maturities of the underlying exposures. The data indicate that Australia's foreign currency debt security liabilities, which account for 70 per cent of total foreign currency liabilities, had a hedging ratio of around 80 per cent (without accounting for 'natural hedges' such as offsetting foreign currency asset positions). Further, almost all derivative hedges were maturity matched. For the banking sector – where debt security liabilities account for around three-quarters of total banking sector foreign currency liabilities and almost half of Australia's total foreign currency liabilities – the data show that 92 per cent of foreign currency debt security exposures were hedged using derivatives, with almost complete maturity matching for both short-term and long-term securities. ↴

