

Foreign Exchange

Student's Name

Institutional Affiliation

INT 220 4-2 Assignment

To: Management

From: ABC

Subject: Impact of Foreign Exchange on Q1 Profitability

Dear Manager,

Following a detailed review of our Q1 financial performance for the international business unit, particularly our operations involving sales to Malaysia, two primary scenarios were analyzed to understand the impact of foreign exchange rates on our profitability.

In Scenario 1, utilizing the spot rate of 3.52 MYR on April 1st to convert our sales revenue of 1.25 million MYR resulted in a total revenue of USD 355,114. This conversion led to a total loss of approximately \$4,886, negatively impacting our profitability due to unfavorable exchange rate movements.

Conversely, Scenario 2 explored the effect of locking in a forward rate of 0.317 USD/MYR on January 1st. This strategic decision generated USD 396,250 in revenue, culminating in a profit of \$36,250. This showcases a significant improvement in profitability attributed to a favorable exchange rate locked in advance.

Considering these scenarios, foreign currency on raw materials could mitigate foreign exchange risk. This approach requires careful analysis of current raw material needs, price advantages, and storage capacities to ensure it aligns with our operational requirements and financial objectives.

In conclusion, the analysis underlines the critical importance of actively managing foreign exchange risk. Proactively leveraging financial instruments like forward contracts can significantly influence our bottom line. This strategic approach not only guards against adverse currency movements but also contributes to achieving a stable and predictable financial performance in the international market.

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Best regards,

ABC