Heavy Machinery – Case Study

A heavy machinery company's hedge book of simple product imports model had become excessively difficult to manage due to a wide array of small leveraged option structures across multiple brokers.

Their main challenges were:

- A lack of a clear hedging policy, which meant overall hedging requirements were not certain.
- The diversity of their leveraged option products and current Excel administration processes made isolating overall exposure highly adhoc and variable, without active consideration of potential downside impact.
- The option structures made transaction costs highly ambiguous.

Rochford advised and implemented the following strategies:

- Input cash flow forecasts and outstanding hedges into a Rochford-built model, to isolate and clearly visualise current exposure, taking immediate hedging actions based on prevailing market conditions.
- Included a scenario analysis into this model to monitor changes in hedging based on movements in foreign exchange spot markets.
- Designed and implemented an updated hedging policy, which in turn, simplified the hedge book over future months using FECs aligned to clear required hedge amounts.

With our support:

- A consistent, practical and appropriate product mix is now providing heightened clarity on future CoGS commitments, enabling flexibility in sales pricing and forecasted earnings.
- Drastic reductions were achieved in transactional pricing, particularly on option structures, due to Rochford's product and pricing knowledge, increasing competition amongst dealing counter-parties.