

FOREIGN EXCHANGE RISK & TRADE FINANCE

How Currency Fluctuations Affect Import and Export Trade

A practical guide for Netherlands-East Africa businesses on pricing, margins, cash flow, contracts and currency-risk controls



REGION
Netherlands - East Africa

DOCUMENT
Professional guide

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Publication Overview

International contracts are often priced in euros or US dollars while an East African importer earns local currency and an exporter pays local costs. When exchange rates move between quotation, order, shipment and payment, the same transaction can produce a different margin and cash requirement. This guide explains the transmission of currency risk and shows practical controls for small and medium-sized traders.

At a Glance

1 MAP THE EXPOSURE	2 PRICE THE RISK
Identify currency, amount, dates, probability and natural offsets.	Use a validity period, buffer, adjustment rule or agreed review trigger.
3 CHOOSE A CONTROL	4 MONITOR AND LEARN
Match forwards, options, natural hedges or staged payments to the exposure.	Compare planned and actual rates, margin and hedge results.

Publication Map

- How exchange rates affect trade
- Importers and exporters
- Worked examples
- Pricing and contract design
- Hedging tools
- Cash-flow and operational controls
- Currency-risk worksheet

1. Where Currency Risk Enters a Trade Transaction

Currency exposure begins when a business commits to a price or expected foreign-currency cash flow. It ends only when the foreign amount is paid, received, offset or hedged.

FOCUS AREAS

- Invoice currency
- Timing
- Amount
- Probability
- Local cost base

Transaction timeline

Quotation	Price may remain open while the exchange rate moves.
Purchase order / contract	Foreign-currency amount becomes more certain.
Production and shipment	Exposure grows while costs and delivery are committed.
Invoice and credit period	Payment date may be weeks or months later.
Settlement	Final local-currency cost or revenue becomes known.

Three types of exposure

- Transaction exposure: contracted foreign-currency receivables and payables.
- Economic exposure: longer-term competitiveness and demand effects.
- Translation exposure: accounting conversion of foreign operations or balances.

CORE QUESTION

If the exchange rate moves by 5%, which cash flows and margins change, by how much and on what dates?

2. Effects on Importers and Exporters

The same currency movement can benefit one party and harm the other. The effect depends on invoice currency, cost currency, payment timing and whether the price can be changed.

FOCUS AREAS

- Landed cost
- Export revenue
- Margin
- Demand
- Working capital

Importer exposure

- If the local currency weakens against the invoice currency, the local-currency purchase cost rises.
- Duty, VAT or other charges linked to customs value may also rise.
- More working capital is needed before customers have paid.
- Passing the increase to customers may reduce demand or create a pricing delay.

Exporter exposure

- If an exporter invoices in foreign currency but pays costs locally, conversion can improve or reduce margin.
- If the exporter invoices in the buyer's currency, it carries the risk until receipt and conversion.
- A stronger home currency can make the exporter less competitive in foreign markets.
- Long quotations, credit terms and delays increase the exposure window.

DO NOT ASSUME

Invoicing in euros does not eliminate currency risk; it transfers or concentrates it. The counterparty may demand a lower price, shorter validity or another concession to accept the risk.

3. Worked Examples for Netherlands-East Africa Trade

Simple scenario calculations make the risk visible before the contract is signed. Use realistic downside and upside rates, not a single forecast.

FOCUS AREAS

- Base rate
- Adverse scenario
- Margin sensitivity
- Customs impact
- Break-even rate

Example A - East African importer buying in euros

Invoice	EUR 100,000	EUR 100,000
Illustrative rate	160 local units/EUR	176 local units/EUR
Goods cost	16,000,000	17,600,000
Difference	-	1,600,000 additional
Result	Budget achieved	Margin falls unless price or cost changes

Example B - exporter receiving euros

An exporter expects EUR 50,000 in 90 days and budgets at 160 local units/EUR, or 8,000,000 local units. If the euro falls to 152, the receipt converts to 7,600,000: a 400,000 shortfall before bank charges. If local production costs are fixed, the shortfall directly reduces contribution margin.

Break-even rate

Break-even exchange rate = total local-currency costs divided by expected net foreign-currency receipt. Add bank charges, financing and expected deductions before calculating the threshold.

ILLUSTRATION ONLY

The exchange rates above are fictitious. Use current dealer quotes and your own taxes, fees, payment dates and cash-flow assumptions.

4. Price and Contract for Currency Movement

Pricing controls do not predict the market; they define how much movement the business can absorb and what happens when the agreed boundary is crossed.

FOCUS AREAS

- Quote validity
- Currency clause
- Adjustment trigger
- Payment timing
- Incoterm consistency

Commercial controls

- Shorten quotation validity when rates are volatile.
- State the invoice currency and the reference source for any conversion.
- Use a price-adjustment band, review trigger or formula for long lead times.
- Take an advance payment to reduce the open amount.
- Align milestone payments with purchase and production commitments.
- Separate exchange-rate adjustment from freight, duty or commodity-price adjustments.

Illustrative currency clause structure

Base	Base exchange rate, date and independent reference source.
Tolerance	Movement absorbed by the quoted price, for example a defined percentage band.
Trigger	Rate and observation date that activate review or adjustment.
Formula	Which portion of price changes and how rounding works.
Evidence	Published rate or bank confirmation.
Remedy	Renegotiation, revised invoice, delay or termination right.

LEGAL REVIEW

Currency clauses must be compatible with governing law, tax rules, exchange controls, invoicing requirements and the rest of the contract.

5. Choose an Appropriate Risk-Control Tool

A hedge should match the underlying exposure in currency, amount and timing. The goal is budget certainty or downside protection, not speculation. Availability and cost vary by country, bank and client profile.

FOCUS AREAS

- Natural hedge
- Forward
- Option
- Staged payment
- Credit and liquidity

Tool comparison

Natural hedge	Match foreign receipts and payments in the same currency.	Amounts and dates may not match.
Forward contract	Fix a rate for a future exchange.	Obligation remains even if exposure changes; credit or collateral may apply.
Currency option	Protect a worst-case rate while keeping favourable upside.	Upfront premium and product complexity.
Staged payments	Reduce the amount exposed for the full period.	More administration and counterparty negotiation.
Foreign-currency account	Hold receipts for matching payments.	Does not remove risk against local costs and may face regulations.
Price buffer	Absorb moderate movement in the commercial margin.	Can weaken competitiveness and fails in large moves.

HEDGE DISCIPLINE

Do not hedge more than a credible exposure. Record the underlying invoice or forecast, approval, maturity, counterparty, cost and accounting treatment.

6. Protect Cash Flow and Working Capital

Even a profitable trade can fail if a currency move creates a cash requirement before goods are sold or customers pay. Treasury, procurement, sales and logistics need one shared forecast.

FOCUS AREAS

- Cash-flow dates
- Deposit and balance
- Duty and VAT
- Financing headroom
- Delay scenarios

Cash-flow controls

- Forecast foreign-currency payments and receipts by week or month.
- Include deposits, freight, insurance, duties, VAT, port charges and loan repayment.
- Stress-test both exchange rates and shipment delays together.
- Set alert levels for margin, liquidity and credit limits.
- Arrange financing headroom before the payment date.
- Avoid funding a long foreign-currency receivable with short local-currency debt without understanding both risks.

Combined stress test

Base	0%	None	Normal funding and margin.
FX stress	10% adverse	None	Use hedge, price clause or liquidity reserve.
Logistics stress	0%	30 days	Fund inventory and delayed receivable.
Combined	10% adverse	30 days	Escalate pricing, facility, hedge and shipment decision.

7. Establish a Simple Currency-Risk Policy

A written policy makes decisions repeatable. It should define who may commit foreign currency, which exposures are hedged, which products are permitted and how exceptions are approved.

FOCUS AREAS

- Exposure register
- Risk limits
- Authorisation
- Approved tools
- Performance review

Minimum policy

- Currencies and transactions covered.
- Definition of committed and forecast exposure.
- Risk tolerance and hedge ratio by time horizon.
- Approved banks, instruments and contract signatories.
- Prohibition on speculative positions.
- Valuation, reporting and escalation frequency.
- Treatment of cancelled, delayed or changed orders.

Exposure worksheet

		Pay / receive				
		Pay / receive				
		Pay / receive				
		Pay / receive				

Monthly review

- Open exposure by currency and date.
- Budget versus current and achieved rate.
- Margin at risk and liquidity impact.
- Hedge coverage, maturity and counterparty limit.
- Forecast accuracy and cancelled exposure.
- Actions, owner and deadline.

FINAL PRINCIPLE

A good currency-risk process protects the trading margin and cash plan while keeping the commercial relationship understandable to both parties.

Verified Resources and Practical Note

These official resources support the main guidance in this publication. Procedures, thresholds and system names can change, so confirm the current rule for the product, route and country before acting.

European Central Bank - Euro foreign exchange reference rates

Public euro reference-rate information; rates are for information and may not be transaction rates.

https://www.ecb.europa.eu/stats/policy_and_exchange_rates/euro_reference_exchange_rates/html/index.en.html

International Finance Corporation - Trade and supply-chain finance

Trade-finance context and financial access.

<https://www.ifc.org/en/what-we-do/sector-expertise/financial-institutions/trade-and-supply-chain-finance>

ICC - Incoterms rules

Allocation of delivery tasks, costs and risk; Incoterms do not allocate currency risk by themselves.

<https://iccwbo.org/business-solutions/incoterms-rules/>

RVO - International business and export

Dutch international-business guidance and support.

<https://english.rvo.nl/international-business-and-export>

PRACTICAL NOTE

Examples are educational and use fictitious rates. This publication is not investment, treasury, legal, accounting or tax advice. Obtain bank quotations and professional advice appropriate to the business and jurisdiction.

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