

How listing influences attention to currency movements

By Deborah Spicer

While the mining sector is dependent on the USD's performance, some mining companies struggle to watch currency movements all the time. This makes it difficult for them to extract value from potential moves in the foreign exchange market.

This is the view of exchange rate advisory firm Umkhulu, whose director, Adam Phillips, has been observing how the mining sector deals with currency movements.

He notes that some listed and non-listed mining companies differ in how they approach currency movements.

"Some listed companies choose not to cover their commitments as they do not want to answer to shareholders if they cover forward their USD and the currency goes the other way. They would rather trade at spot and let the market decide where the ZAR/USD is. However, there are some big listed companies that actively hedge," he says.

"Some non listed companies do hedge. A smaller shareholder base allows this, although there are other issues to consider like the commodity price. Invariably this means they also do not hedge. Some prefer to hedge the physical side and not the currency," Phillips adds.

He advises that, whether they are listed or not, companies must decide on a foreign exchange policy and commit to it.

All mining companies are dependent on the USD since commodities are traded in USD and offshore-based clients prefer to pay for their purchases in USD.

Phillips encourages mining companies to use independent currency advisors so that they can act on impartial, knowledgeable advice.

He believes that the average USD value for the year will be 6.90ZAR to the USD.

To discuss movements in the exchange rate, please contact Adam Phillips at adam@umkhulu.com