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Exotic Currency Hedging company TCX breaks records despite turbulent markets

A little quiz, for in the car, while out camping, or at the pool side. From which countries are the following currencies: the gourde, the lempira, the quetzal and the dram?

No idea? That is nothing to be ashamed of. That is to say, a not necessarily representative poll among FD stock market editors, yielded a 0% score. We hope that the consequences for the subscription numbers of this newspaper will not be too dramatic.

In the offices of TCX in the Amsterdam Royal Institute of the Tropics, the result would have been a lot better. There, any employee would have casually said that the gourde is from Haiti, that in Honduras you pay with lempiras, that the quetzal buys you your goods in Guatemala and that the dram is the currency of Armenia.

Lending in lari

That is not that surprising, as TCX did transactions in all those currencies this year. The fund, with the full name “The Currency Exchange Fund”, covers – often as the only party doing this – the risk that development banks take by lending in, for example, the Georgian lari.

This way, an institution like the Dutch development bank FMO, can finance local businesses in their own currency. For the borrower, that is a lot more secure than borrowing, for example, in dollars or euros. And because the currency risk is borne by TCX, for FMO (one of the 22 shareholders of TCX), an important obstacle to the financing is removed.

Twenty-one currencies

This week TCX broke a record: with a note issued in Myanmar kyat, the Fund registered its twenty-first currency of the year, and the volumes also are

growing wildly. The demand for loans in local currency, therefore, does not appear to be suffering from the turmoil in large emerging markets like Argentina and Turkey, the trade war between China and the US and the generally more somber economic prospects.

CEO Ruurd Brouwer, sees two explanations for the unaffected growth: “On the one hand, this market is still in its infancy; we cover not even 1% of the market potential. And on the other hand, if investors can choose between -0,5% return in euro or yen, or maybe 5% on a currency of a *frontier market*, then many may think that a little bit of diversification is justified.

Risk of recession

A worldwide recession could, however, certainly impact TCX. For example, if China starts importing less natural resources, many African exporters will take a hit, with depreciating currencies as a result. “In terms of return, that will hurt us in the short run, but that is what we are here for. And in the long run, the situation will balance out”, says Brouwer.

TCX now has an exposure (subject to internal limits), to sixty different currencies, which ensures a good diversification of risk. “Because of that, we are not too badly affected, if something goes wrong, like yesterday in Argentina”, says Brouwer. And the diversification continues to expand: TCX now also offers transactions in ouguiya. And that, of course, is the currency of Mauritania.