

International Financial Markets



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ADMINISTRATION IN KARVINA

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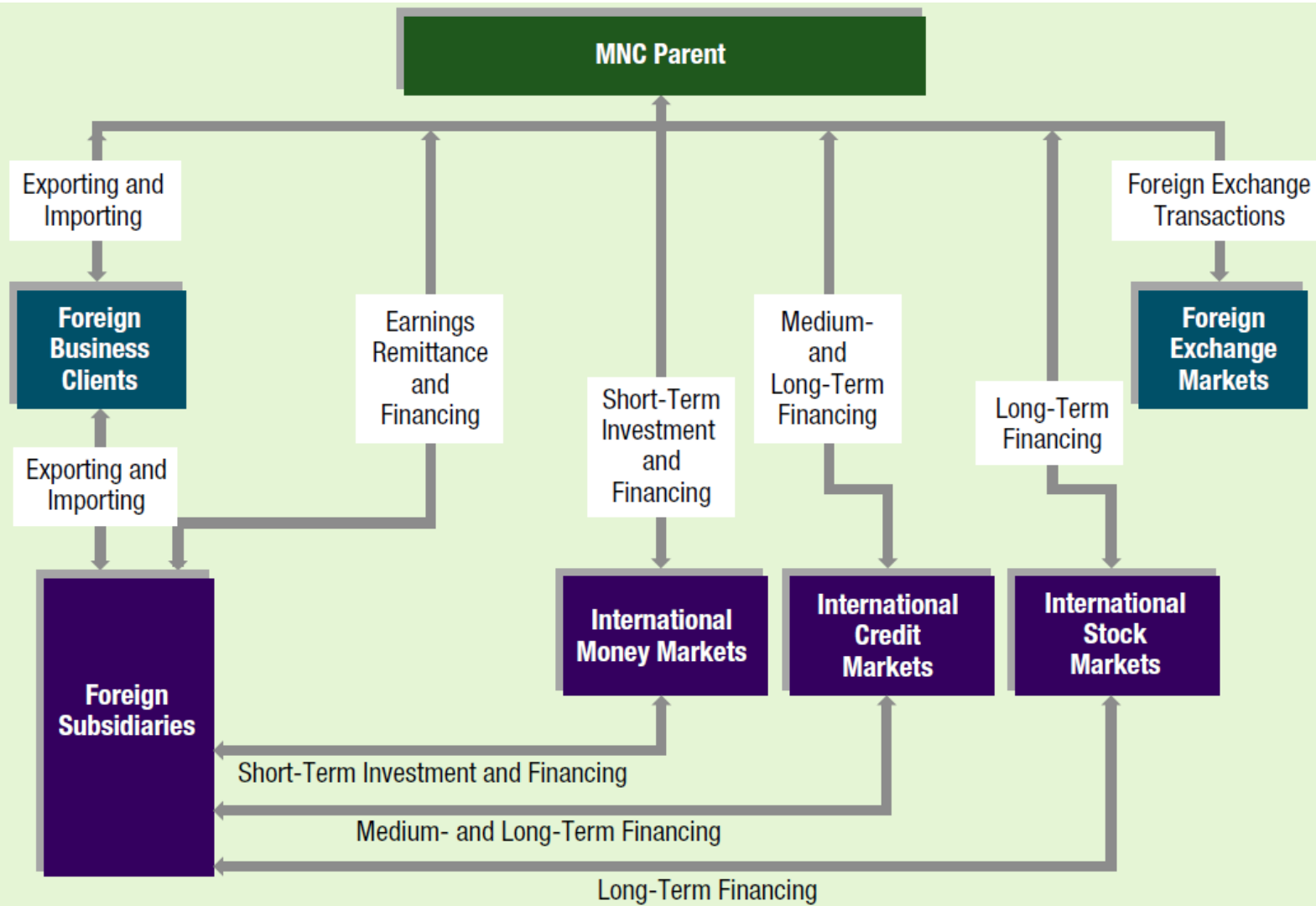
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International Financial Markets Used by MNC



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- foreign exchange market
- international money market
- international credit market
- international bond market
- international stock market





??? Why MNCs use international money market instead of domestic one???

International Money Market



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- Used to borrow short-term funds denominated in foreign currency
 - Borrowing funds to pay for imports denominated in a foreign currency.
 - Borrowing in a currency in which the interest rate is lower.
 - This strategy is especially desirable if the firms will have receivables denominated in that currency in the future.
 - Borrowing in a currency that will depreciate against MNC's home currency, as it would be able to repay the loan at a more favorable exchange rate over time.
 - Thus, the actual cost of borrowing would be less than the interest rate of that currency.
- Used to invest short-term funds in foreign currency
 - Investing in short-term investments denominated in foreign currencies with higher interest rate in comparison to interest rate of short-term investment in local currency.
 - Investing in a currency that will appreciate against home currency, so MNC would be able to convert that currency into its home currency at a more favorable exchange rate.
 - Thus, the actual return on investment would be higher than the quoted interest rate on that foreign currency.

Risk of the International Money Market



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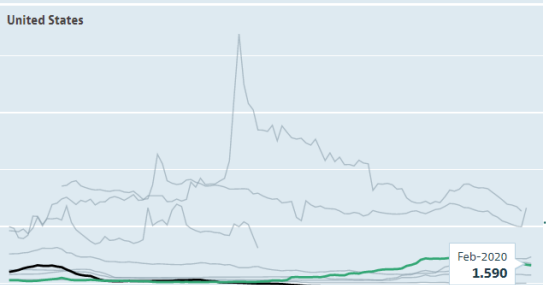
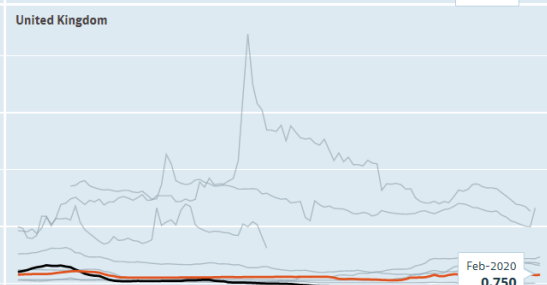
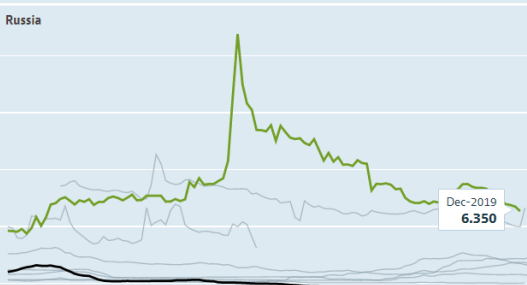
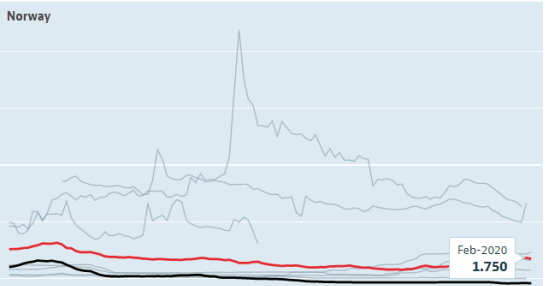
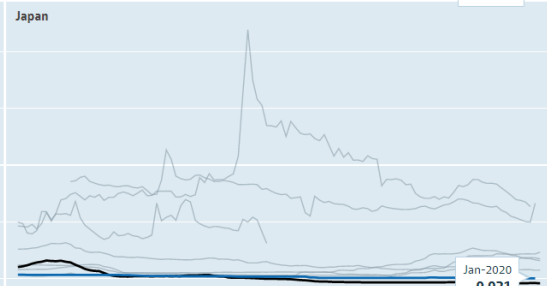
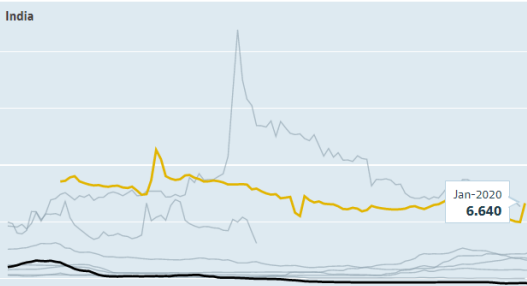
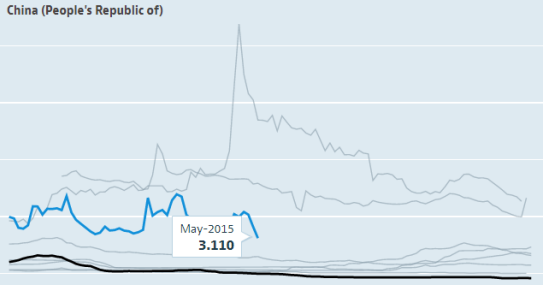
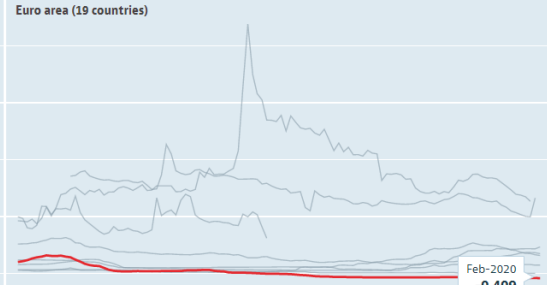
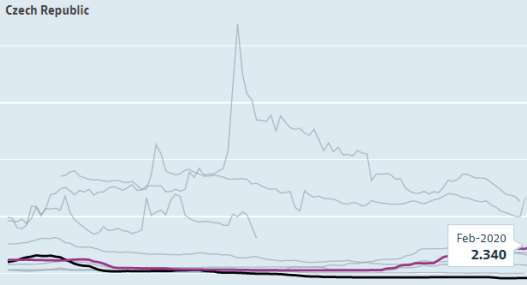
- Generally is considered as a market with low level of risk
 - the least risky money market instruments are, in particular, state treasury bills and sovereign bonds with a maturity of up to one year.
 - due to the higher risk of failure in the MNC, interest rates are somewhat higher for them in the money market.

- Money market instruments are subject to exchange rate risk
 - For example, the profitability of an investment can be reduced when the currency in which a security is denominated depreciates against the currency of the investor. This implies that even though the security does not bear any credit risk, investors may lose money due to foreign exchange risk.

Interest Rates in the Money Market (March 2020)



Short-term interest rates Total, % per annum, Jan 2011 – Feb 2020





??? Why MNCs use international credit market instead of domestic one???



- Use for obtaining/investing medium and long term funds through financial institutions located on foreign markets.
- Interest rate varies according to the movement of reference market interest rate
 - Often interbank interest rates, such as the LIBOR, EURIBOR
- The basic reasons for using the international credit market by MNC are identical for the international money market, the difference is in the time horizon of the use of funds.

Standardizing Global Bank Regulations



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- (Basel I -> Basel II->) Basel III Accord
 - an internationally agreed set of minimum requirements which apply to internationally active banks
 - measures developed by the Basel Committee on Banking Supervision in response to the financial crisis of 2007-09.
 - measures aim to strengthen the regulation, supervision and risk management of banks.
- Single European Act
 - Capital can flow freely throughout Europe.
 - Banks can offer a wide variety of lending, leasing, and securities activities in the EU.
 - Regulations regarding competition, mergers, and taxes are similar throughout the EU.
 - A bank established in any one of the EU countries has the right to expand into any or all of the other EU countries.

Syndicated Loans



- When a single bank is unwilling or unable to lend the amount needed by a MNC, a syndicate of banks may be organized.
 - Lead bank is responsible for negotiating terms with the borrower.
 - Lead bank organizes a group of banks to underwrite the loans. The syndicate of banks is usually formed in about 6 weeks, or less if the borrower is well known (credit evaluation can be conducted more quickly).
 - Each bank in the syndicate participates in lending.
- Borrowers that receive a syndicated loan incur various fees (besides the interest).
 - Front-end management fees - paid to cover the costs of organizing the syndicate and underwriting the loan.
 - Commitment fee (0.25 - 0.50 %) - charged annually on the unused portion of the available credit.

Syndicated Loans



- Factors affecting interest rate on the syndicated loan
 - currency denominating the loan
 - maturity of the loan
 - creditworthiness of the borrower
 - interbank lending rate
- Syndicated loans not only reduce the default risk of a large loan to the degree of participation for each individual bank, but they can also add an extra incentive for the borrower to repay the loan.
 - If a MNC defaults on a loan to a syndicate, word will quickly spread among banks, and the MNC will likely have difficulty obtaining future loans. Borrowers are therefore strongly encouraged to repay syndicated loans promptly.
 - From the perspective of the banks, syndicated loans increase the probability of prompt repayment.

Questions and Applications



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In 2008, the USA experienced a credit crisis that was triggered by the substantial defaults on so-called subprime (lower quality) mortgages. This led to a halt in housing development, which reduced income, spending, and jobs. Financial institutions holding the mortgages or securities representing the mortgages experienced major losses. As the U.S. economy weakened, investors feared that more firms might default, and they shifted their funds out of risky debt securities. Financial institutions in some other countries such as the UK also offered subprime mortgage loans, and also experienced high default rates. Because of the global integration of financial markets, the problems in the U.S. and U.K. financial markets spread to other markets.

Some financial institutions based in Asia and Europe were common purchasers of subprime mortgages that were originated in the USA and UK. Furthermore, the weakness of the U.S. and European economies caused a reduction in their demand for imports from other countries.

Thus, the U.S. credit crisis blossomed into an international credit crisis.

??? What was the impact of this situation on loans provided for the MNC**???**



??? Why MNCs use international bond market instead of domestic one???

International Bond Market



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- Factors affecting MNCs to issue bonds in the international bond markets
 - MNC may attract a stronger demand abroad (some countries have a limited investor base, so MNCs in those countries seek financing elsewhere).
 - MNCs may prefer to finance a specific foreign project in a particular currency and therefore may attempt to obtain funds where that currency is widely used.
 - Financing in a foreign currency with a lower interest rate may enable an MNC to reduce its cost of financing, although it may be exposed to exchange rate risk.
- Major participants in the international bond market
 - Institutional investors (commercial banks, mutual funds, insurance companies), Pension funds
- International bonds are typically classified as either foreign bonds or Eurobonds.
 - Foreign bond is issued by a borrower foreign to the country where the bond is placed.
 - Eurobond is bond sold in countries other than the country of the currency denominating the bonds.



??? Why MNCs use international stock market instead of domestic one???



- MNC may obtain long term funds from foreign investors to issue shares in international markets.
- Reasons for the issuance of shares on foreign markets:
 - Rate of sale of shares
 - Increase in MNC's image
 - Better emission conditions
 - Location of economic activities of the MNC
 - Existence of secondary markets
 - Liquidity of the foreign market



???Why MNCs use foreign exchange market???

Meaning of the Foreign Exchange Market



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- The largest financial market made up of banks, commercial companies, central banks, investment management firms, hedge funds, and retail brokers and investors
- Foreign exchange means the money of a foreign country; that is, foreign currency bank balances, banknotes, checks and drafts
- A foreign exchange transaction is an agreement between a buyer and a seller that a fixed amount of one currency will be delivered for some other currency at a specified date

World Market Capitalization



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Chart 1: Market capitalization 2015-2019

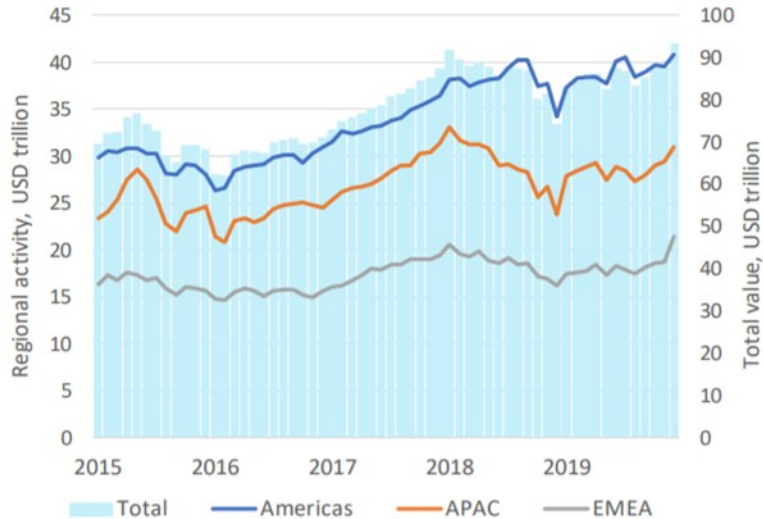
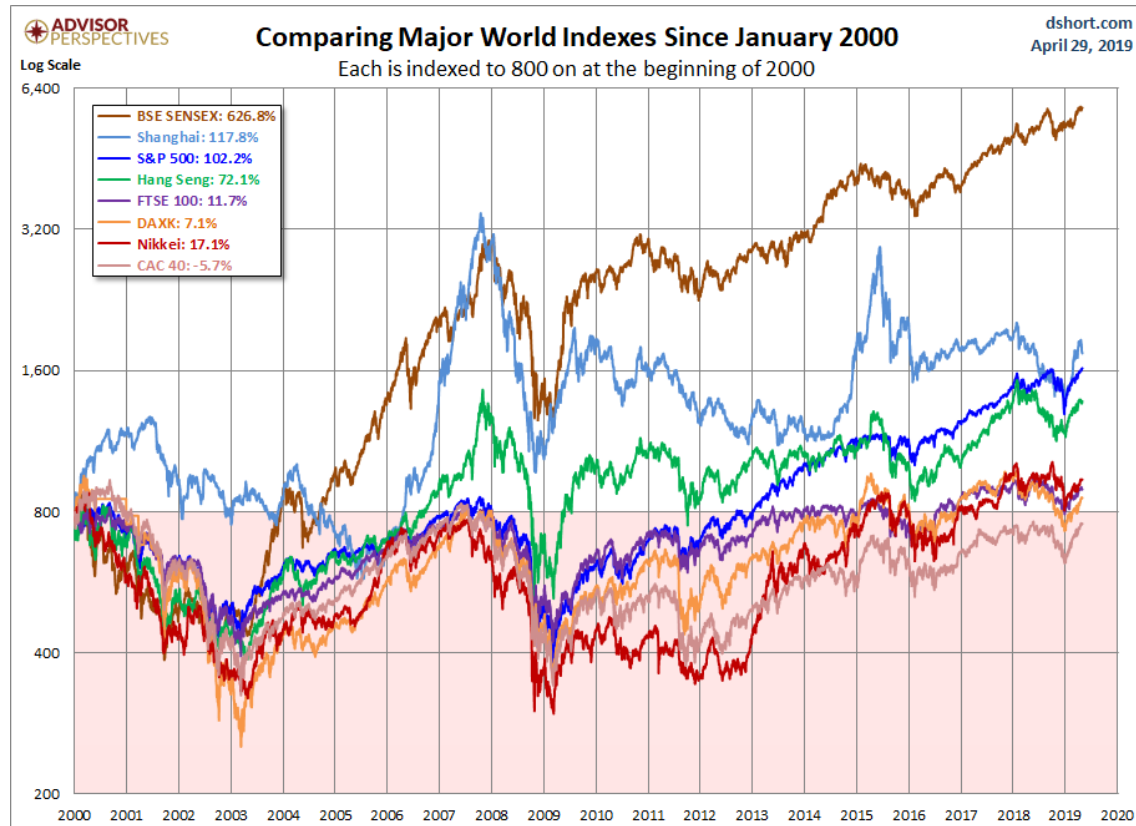


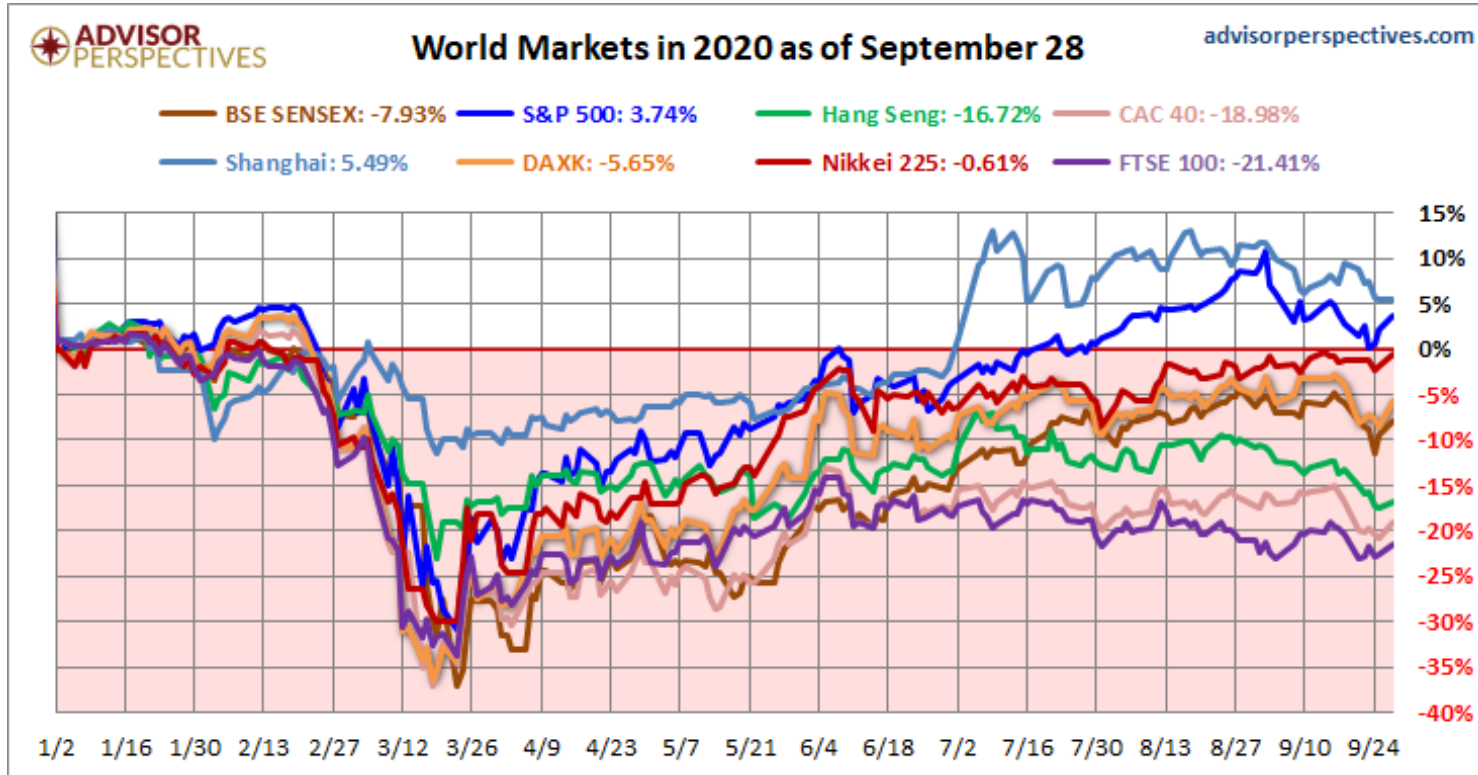
Chart 2: Market capitalisation 2019 – Q1 2020



Major World Indexes 2000 – 2020 Comparison



Major World Indexes 2020 Comparison

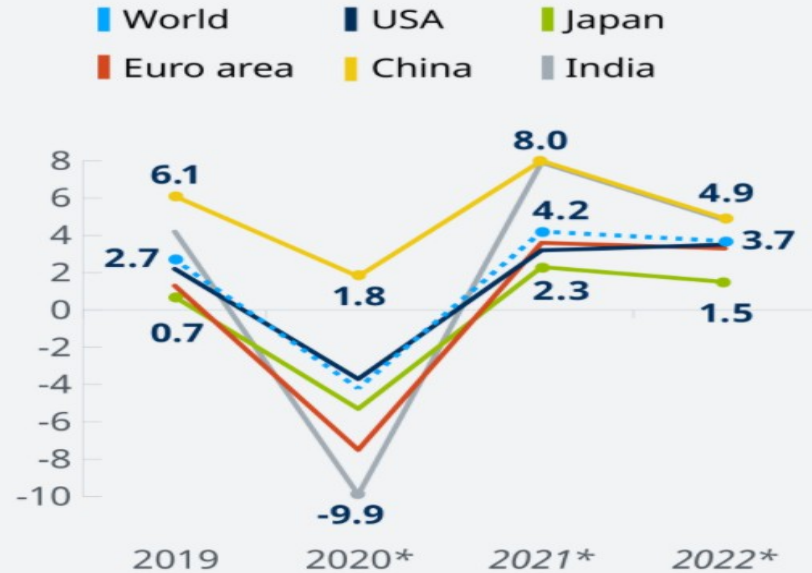


OECD Global GDP Prediction



A gradual but uneven global recovery

GDP growth in percent



Source: OECD: *forecast



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***THANK YOU FOR YOUR
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