

**Created by:** Francesca Murphy  
**Updated by:** Francesca Murphy *FM*  
**Date Created:** October 7, 2025  
**Date Updated:** October 24, 2025  
**Version:** 1.0  
**LLM Used:** GBT-5

**To:** Chief Financial Officer

**From:** Francesca Murphy, Treasury Analyst

**Subject:** Managing FX Exposure for €4.5 Million Receivable

I am writing to address our exposure to euro-dollar exchange rate risk and propose three hedging strategies to protect our dollar proceeds while maintaining flexibility in a volatile currency market.

**The Identified Issue:**

Our firm expects to receive €4,500,000 in one year from a European customer. The current spot rate is 1.1619 USD/EUR, valuing the receivable at about \$5.23 million. However the one-year forward rate of 1.0875 USD/EUR signals euro depreciation, resulting in the dollar receipts reducing to \$4.89 million. This potential loss of \$340,000 is due solely to exchange rate movement.

This represents a long-euro, short-dollar exposure. If the euro weakens further, profit margins will further compress. Given European inflation uncertainty, proactive hedging is crucial.

**The Proposed Solution:**

To manage this exposure, I recommend evaluating three strategies.

1. Forward Contract: Lock in the current one-year forward rate of 1.0875 USD/EUR. This eliminates uncertainty with straightforward execution, though it removes upside if the euro strengthens.
2. Money Market Hedge: Borrow the value of the €4.5 million receivable, convert to dollars at the current spot rate, and invest the resulting USD at 3.66% for one year. The euro inflow will repay the loan at maturity and ensure that our dollar proceeds are fixed today based on current interest rates. It can use existing credit lines but adds short-term borrowing and complexity.
3. Option Hedge: Purchase a EUR put option (premium = \$0.015/EUR, ~\$67,500 total) to secure a minimum dollar value if the euro weakens while allowing us to benefit if it

strengthens. The premium represents a fixed upfront cost and results depend on market conditions.

**Benefits to the Proposed Solution:**

1. Cash-Flow Stability: Securing exchange rate ensures reliable & predictable dollar inflows.
2. Financial Control: Limited FX volatility supports accurate forecasting and budgeting.
3. Strategic Flexibility: Options or money-market hedging lets us protect against losses while preserving upsides.

Implementing a disciplined FX hedging strategy will safeguard our earnings from currency fluctuations and strengthen financial resilience. In the next stages, I will construct an Excel model comparing each approach under multiple scenarios to identify the most cost-effective hedge. Please let me know if you'd like to review a preview of the model or discuss assumptions before I move forward.

**References**

Current Euribor rates - daily. (n.d.). Retrieved from <https://www.euribor-rates.eu/en/current-euribor-rates/>

EUR/USD (EURUSD=X) live rate, Chart & News. (2025). Retrieved from <https://finance.yahoo.com/quote/EURUSD=X/>

Market yield on U.S. Treasury securities at 1-year constant maturity, quoted on an investment basis. (2025). Retrieved from <https://fred.stlouisfed.org/series/DGS1>

