



Global Markets

2020 Case Competition

Competition Information

Welcome to the inaugural Commonwealth Bank of Australia Global Markets Case Competition

The Global Markets team invites students from all universities to step into the shoes of the Commonwealth Bank of Australia Global Markets team and solve a real-life scenario that they face everyday.

We are looking for teams to showcase their creativity, problem solving and analytical skills.

Key Dates



This year, all rounds and submissions for the case competition will be fully virtual.



Submission Instructions

Deadline for submissions

All teams are required to submit their presentation by 12:00 pm AEST Sunday 5 July 2020 to globalmarketscasecomp@cba.com.au. Presentations should be no longer than 10 slides (inclusive of cover page). Any supporting analysis and evidence should be included as appendices.

What to include

Teams should include in their email:

- Team name and “Global Markets Case Competition” in the subject line
- PowerPoint presentation labelled as “TeamName_Round” i.e. CBAGM_Heat

Results

Successful teams will be sent an email allocating them a time for their heat presentation on 8 July 2020 and requesting a word document with their key talking points and arguments.



Presentation



Important information to be aware of:

- Presentations should be 10 minutes maximum.
- Q&A in the heat and final round will be 5 and 10 minutes respectively. Time limits will be strictly adhered to.
- Presentations should be in PowerPoint format. Appendices will not be marked but may support Q&A.
- Wear suitable business attire to your presentation.
- Check your systems and ensure that you are ready 10 minutes before your virtual presentation. The judging panel will not wait for late entrants and will not allocate you another presentation time if you do not attend or are late to your scheduled presentation time.



Your Guide to a Successful Presentation



We are looking for:

- Well-thought out and detailed answers which address a wide variety of factors.
- Teams that effectively demonstrate an understanding of global markets and financial instruments.
- Originality and creativity in approaching the key issues.
- The ability to provide persuasive, clear and concise recommendations and responses to the judges.
- Appropriate presentation style, including verbal and written communication skills.



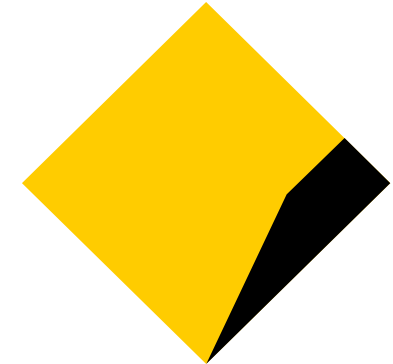
Case Question

You and your colleagues work in the Commonwealth Bank of Australia's Global Markets team. Your role is to help clients navigate their financial market risks. Your client New Era Iron is concerned with the potential impact that movements in foreign exchange rates may have on their performance as a corporate entity operating in the global marketplace.

The CFO of New Era Iron is worried about their foreign exchange exposure and has asked for a meeting with you and your colleagues.

In particular:

- They have asked for your AUDUSD outlook;
- They would like to understand the risk/s that foreign exchange has on their business; and
- They have asked you to provide ideas on what they could do to manage the risk/s.



Institutional Banking & Markets

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better Australia ”**



New Era Iron

New Era Iron is an established Australian natural resources company that owns and operates several iron ore assets across Australia. The company exports iron ore across the globe. Currently, New Era Iron expects annual revenue from its iron ore exports to be USD\$600,000,000, receipt of which occurs in equal instalments at the end of each calendar month for the next twelve months. However, New Era Iron has its cost base in AUD. They will need to convert the USD revenue to AUD to meet their financial obligations in Australia.

The CFO does not want CBA to consider iron ore production and exposure.

Additional details:

- The company has recently executed several iron ore supply agreements with its steelmaking clients, and is certain that it will receive USD\$600,000,000 in receipts.
- The company has recently experienced a fall in expected revenue due to a regulatory delay in its Port Hedland mine site.
- Their cost base each year is AUD\$650,000,000.



NEW ERA
IRON



New Era Iron - Dividends

Share Capital

	New Era Iron		
	FY 2019/20 Shares	FY 2018/19 Shares	FY 2017/18 Shares
Share Capital Issued (issued and fully paid)	156,250,000	156,250,000	156,250,000
<u>Comprising:</u> Shares held by the public	145,326,287	143,251,854	140,658,927
Treasury shares	10,923,713	12,998,146	15,591,073
Interim dividend	62 AUD Cent	60 AUD Cent	52 AUD Cent
Final Dividend	66 AUD Cent	68 AUD Cent	63 AUD Cent
Total Dividend	128 AUD Cent	128 AUD Cent	115 AUD Cent

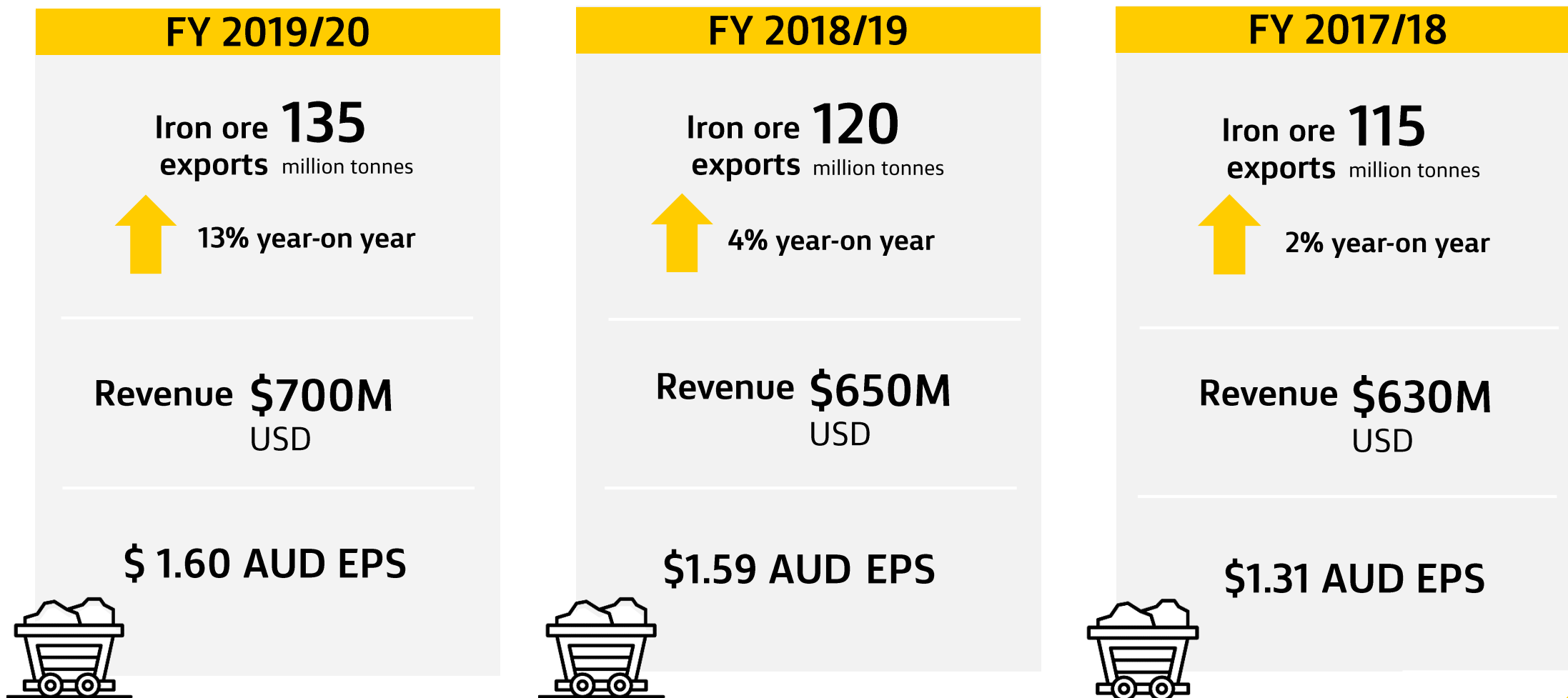
Additionally, New Era Iron pays its shareholders an interim and final dividend every year. The board has deemed that AUD\$200,000,000 total is necessary to proceed with both dividends this year, and has not included the dividends payout in its cost base. The interim dividend date is 28 December 2020.

Given the current market the CFO is facing pressure from the board and shareholders to maintain consistent dividend payments.



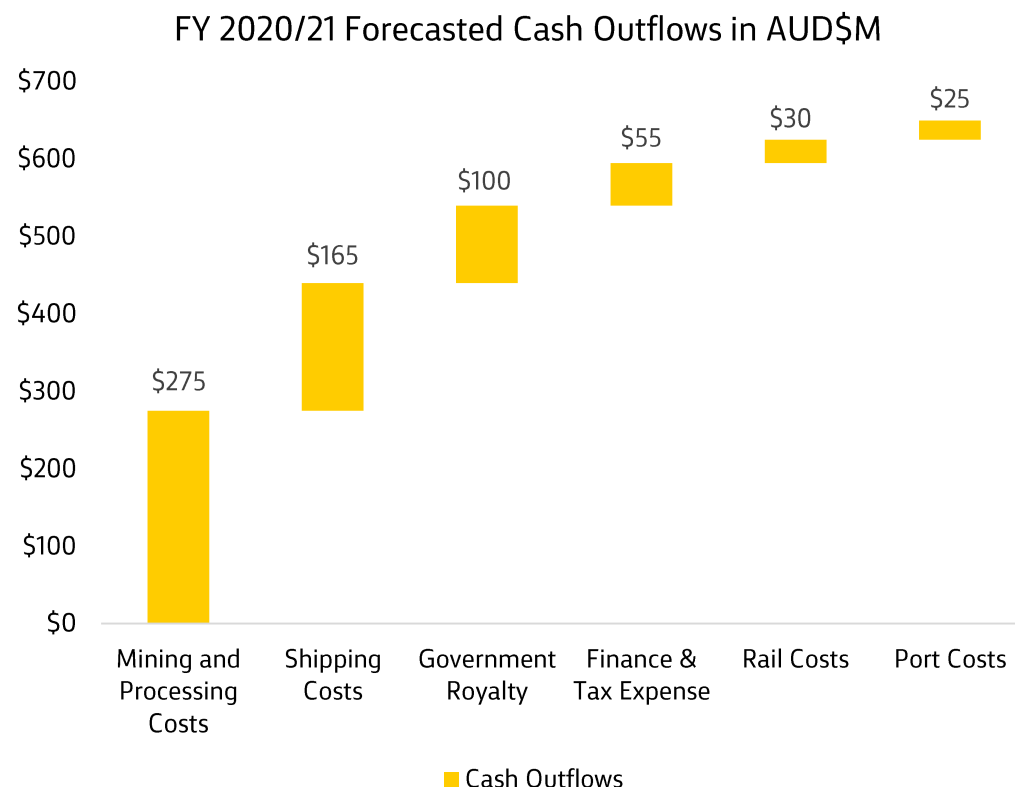
New Era Iron - Revenue

Extract from prior Investor Presentations



New Era Iron – Financials

Cost base and previous financial statements



\$M	Forecasted FY2020/21	FY2019/20	FY2018/19	FY2017/18
Revenue (USD)	600	700	650	630
Achieved Exchange Rate		0.6700	0.7000	0.7500
Revenue (AUD)		1045	929	840
Cost of Good Sold	-495	-635	-540	-510
Mining and Processing Costs	-275	-370	-285	-280
Rail Costs	-30	-35	-35	-30
Port Costs	-25	-30	-20	-25
Shipping Costs	-165	-200	-200	-175
Gross Profit		410	389	330
Government Royalty	-100	-100	-80	-70
EBITDA		310	309	260
Finance & Tax Expense	-55	-60	-60	-55
Net Profit		250	249	205



Supplementary Resources & Information

Forecasting Currencies

General tips

FORECAST

Be aware of forecasting limitations and assumptions

Know what your forecast is telling you

Importance of past and future data

REASONS

It is crucial to know the reason behind a forecast

Do not treat the forecasts as just a number

Substantiate your claims

RISK

Keep an open mind to all potential risks

The risks to your reasons are important

Three methods

FUNDAMENTAL

Based on economic fundamentals; both theory and economic data

Economics is both an art and a science

TECHNICAL

Seek to predict the future by interpreting past patterns on the assumption that history repeats itself

Best for short term views

RANDOM WALK

Assumes all information about the future is known and already reflected in today's price

Based on the idea that the best forecast is today's rate



Supplementary Resources & Information

Understanding Hedging

What is hedging?

Hedging is a risk management strategy employed to limit or offset potential losses which may occur in a business due to the fluctuation in the price of a commodity, a currency, interest rates or a financial asset.

How do you hedge?

Find a companion asset, typically with a financial instrument in a different market place.

The hedge taken will be an equal but opposing position intended to equally offset any gains or losses which occur from changes in the price of the required asset.

Potential hedging strategies

- Forward Exchange Contracts
- FX options
- FX swaps
- FX futures



Additional Resources

Investopedia | Educational – <https://www.investopedia.com/>

Bloomberg Website | News & Educational – <https://www.bloomberg.com/>

Trading View | Real-time Data, Charting and Paper-trading – <https://www.tradingview.com/>

Yahoo Finance | News & Data – <https://au.finance.yahoo.com/>



Questions

Students will have an opportunity to have their questions answered by the Global Markets team at the virtual workshop on Tuesday, 30th June 2020.

Please ensure to email your questions to globalmarketscasecomp@cba.com.au prior to the workshop.



Disclaimer

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