
Investors in global markets warned to currency hedge

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Exporters seem to get all the press when the New Zealand dollar bounces around but there's another group affected by the volatility— those who invest in global shares and commodities.

And NZ Funds chief investment officer Michael Lang has warned these investors that they risk losing money if they don't have currency hedging in place.

He said that many New Zealanders who invested in global shares and commodities this year have had their gains negated by the rapidly appreciating dollar.

If the dollar continues to appreciate further without a matching gain in the price of global investments they could stand to lose significant amounts of money.

Mr Lang said the MSCI world index rose 63.93% in the past seven months from its low on March 9 to Oct 2009.

But the New Zealand dollar gained 44.5% against the US dollar over the same period.

This means New Zealanders who invested in the MSCI would only have generated a net return in New Zealand dollars of 13.65% if they didn't hedge the currency.

Investors who put their money into gold would have lost a significant 21.89% of their money as a result of the 44.5% currency rise, despite gold actually increasing 13.4% in the past seven months.

“Unlike New Zealand companies that regularly trade with international partners and therefore have to consider the implications of an openly-traded, volatile currency, many local private investors and even some local investment managers are not wise to the dangers of owning offshore investments without a currency hedging strategy,” he said.

Mr Lang pointed out that between 10 July 2002 and 31 October 2007, the MSCI world index increased 167%, offering investors significant returns.

However New Zealand investors who didn't have any currency hedging in place would have only

generated a mere 40.14% return over the same period because the New Zealand dollar rose 58.8% relative to the US dollar during that time.

He said that currency is as important an asset class as shares or government bonds.

This year the losses generated by passive currency allocations had been concealed by rising global share prices but there was no guarantee this would continue, he added.

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