

FX Education Series:

Considerations for Local Currency Payments

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Some US-based businesses buy from foreign partners in US dollars because they believe this will help them avoid extra costs. In fact, switching to local currency can help both US buyers and foreign sellers.

First, you could receive better pricing. Exporters rarely ask their US trade partners to accommodate their local currency preference for fear of hurting the relationship. Instead, they build in a risk premium into prices to protect themselves from currency fluctuations. Offering to pay in local currency means you might avoid this markup.

Second, payments can clear more quickly. When sending dollars to an overseas exporter, the exporter's bank may delay the credit due to conversion processing queues. Sending local currency avoids this issue and may improve supplier relationships. Because exchange rates are changing constantly, paying international vendors in foreign currency will cause fluctuations in a company's US dollar denominated costs. When the dollar is strengthening, costs could decrease, and when the dollar is weakening, costs could increase.

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