International Financial Markets

Name

Institution Affiliation

**Task One: International Financial Markets**

**Use of spot market in foreign market exchange by retail outlets in Vietnam**

A spot market refers to a situation where financial instruments like currencies, products, securities, and traded on for immediate delivery. The delivery here is the exchange of cash for valuable financial tools (Ferreira, Azevedo, Oliveira & Marques, 2016). Businesses use spot markets in different ways to participate in the foreign market where there is high competition. Similarly, in this case, the retail outlets in Vietnam would need to use the spot market in foreign exchange in various ways.

A direct quotation is one of the best methods through which retail outlets in Vietnam is used in the spot market in foreign exchange of goods for money and other products. According to a national perspective, direct quotation is the price of one unit of foreign currency in the home currency (Ferreira et al. 2016). Besides, retail outlets in Vietnam can use direct quotations to compare the price of a single unit of their home currency against the foreign currency of business partners in the international markets. In most instances, the foreign currency used as references point by retail outlets in the global market is US dollars. The dollar value is standard is accepted by many nations. As such, the retail outlets would need to use the spot market to facilitate indirect quotations in the foreign markets.

**Use of forwarding market in foreign market exchange by retail outlets in Vietnam**

A forward market refers to an informal financial market situation where agreement or contracts for future delivery of certain products are sealed (Ferreira et al. 2016). In most occasions, the agreement made between two or more parties is based on the current market situation of the foreign market.

Retail outlets in Vietnam can use foreign markets to hedge risks just as other derivatives. In most cases, businesses try all that they can to eliminate or reduce business risks. As well, retail outlets in Vietnam cause would need to use the forward market to avoid business risks in the foreign markets to help them succeed (Ferreira et al. 2016).

Also, the retail outlet in Vietnam would need to forward the market as a means of currency translation. These retail outlets can do this when participants of a foreign trade enter into a contract to buy or sell a currency (Ferreira et al. 2016).

**Possible payment mechanism in the spot market and forward markets**

Generally, different payment mechanisms are used in foreign markets to pay for products based on the agreement between the trading parties. A spot market can use an open or ongoing payment mechanism to make payment for the purchase made in the foreign markets (Fontaine, Scherer & Soriano, 2013). Secondly, a letter of credit can be used to a payment mechanism for making credit payment s agreed by the parties engaging in foreign trade.

In the case of a forward market, advanced payment can be used by retail outlets in Vietnam to seal the agreement between the two parties engaging in foreign trading. Advanced payment can be made one the parties come into a contract that the stipulated products will be supplied to the buyer in the future (Fontaine et al. 2013). Secondly, a consignment sale can be used as a payment mechanism for goods that will be supplied in the future. The method of payment allows the party to trade on behalf of the trader agreeing.

**Foreign Exchange Quotation**

Generally, countries participating in international markets use different types of quotations to run their activities in the global markets. In this case, the foreign exchange between AUD and the Vietnamese can work in two different types. Fist, the direct quotation can be used in the two countries engaging in trading activities (Fontaine et al. 2013). The direct quotation can be used when the price of a single unit of foreign currency is expressed entirely in terms of domestic money. Secondly, the indirect quotation can also be used when the price of a single unit of the local currency of either AUD or Vietnamese is expressed in terms of foreign currency.

When a trade sends Australian goods over from Vietnam to Thailand, an indirect quotation will be used to express one unit of domestic currency is expressed in terms of foreign currency (Fontaine et al. 2013). The latter will help to settle any currency exchange between Australia and Thailand.

**Use of local and international banking/ financial markets**

Usually, a business person operating in global markets uses domestic and international banking and financial markets differently to provide financial supports for their businesses. Similarly, in this case, the management of the company can use financial markets to get corporate finance (Fontaine et al. 2013). Financial markets in both local and international markets will provide enough capital for the traders to run all their international activities. Also, the management of companies, in this case, can use trade finance to obtain financial support to finance their business activities in both local and international markets.

**Task Two: Investing Risk and Return-Equity**

**Possible macro-economic and industry factors and risks**

Typically, it is appropriate for investors to assess various factors associated with an investment by venturing. As such, in case Aunty Scottie would wish to invest in Santos Limited shares, there are multiple factors that she needs to put into consideration. First, Santos Limited is a listed company on the Australian Stock Exchange; thus, it is likely to be affected by various macroeconomic factors that can affect share prices and viability (Mueller & Massaron, 2019). First, she should consider the possibility of market failure of the company's shares before investing. Market failures are associated with market inefficiencies that might result due to economic instability. Also, there is a possibility of the occurrence of market risk, which can occur due to market inefficiencies. Therefore, it is appropriate for Scottie to consider such factors before venturing in Santos Limited shares.

Secondly, share price stability is another critical factor that should be critically analyzed by Scottie. For her to get reasonable returns from the investment at Santos Limited, market prices of shares should be stable (Mueller & Massaron, 2019). As such, Scottie needs to consider the stability levels of market share prices.

**Firm-specific factors and risks**

Santos Limited is an independent oil and gas producer listed on the Australian Stock Exchange. The company operates in the Asia-Pacific region, supplying large quantities of energy products across Australia and Asia (Mueller & Massaron, 2019). The company is likely to be affected by various macroeconomic factors that can affect its operation in the industry. Prices stability is one of the factors that can affect the operation of the company. Usually, when tat prices of oil products go incredibly high, the Australian government controls costs by imposing policies. When this happens, it can influence return for investors because they can fail to get reasonable returns for their investments.

On the other hand, the risk of military invasion is associated with investing in Santos Limited's shares. In most instances, when there is some disagreement between that government and the company, the government might give direction for invasion by the military (Mueller & Massaron, 2019). When such operations happen, shareholders of the company can be adversely affected.

**The historical and expected return of Santos Limited**

Historically, Santos Limited has been one of the leading energy companies listed on the Australian Stock Exchange. The company's performance has been booming for that last decade due to excellent organization management and a friendly trading environment between Australia and Asian countries (Mueller & Massaron, 2019). As such, there are a considerable number of investors who have committed their finances to invest in the company's shares both for short-term and long-term. The market prices of the company are relatively standard, thus encourages potential investors to commit their funds to buy the company's shares. Besides, the yield of the company's shares is reasonable; therefore, it has encouraged potential investors to consider investing in the company's shares than those of its competitors.

Furthermore, just like others, Santos Limited gives out dividends to its shareholders based on the amount of profit earned during a particular financial year (Mueller & Massaron, 2019). For instance, when the company makes a considerable income, the management of the company during an annual general meeting agrees on the amount to give out to shareholders as dividends.

**Past trends of Santos Limited**

Santos Limited has progressively been improving in its activities of that last ten years. The company has reported an increase in energy production due to proper management at the company. As such, this has made the company to be one of the top-performing companies in the oil and gas industry in Australia (Shurtleff & Aoyagi, 2018). As a result, the number of the company's shareholders has increased, thus providing for the company a large capital base that has enabled the management of Santos Limited to run their activities more smoothly. Consequently, this has made the company earn relatively huge profits from its operations. The latter has made the management to increase dividend payout to shareholders due to the increase in profits.

**The volatility of Santos Limited**

Generally, the volatility of a project is considered based on the number of returns that can be derived on maturity. Santos Limited is a listed company at the Australian Stock Exchange. Over the past ten years, the company reported relatively good performance with its share prices and payout rising. Besides, the company's capital base has also increased over the years, which is a sign of a reduction in capital risks.

Furthermore, the company also pays reasonable dividends to its shareholders annually, which indicates an excellent performance (Shurtleff & Aoyagi, 2018). Conclusively, it is appropriate to say that Santos Limited is a viable company that potential investors should consider purchasing its shares. Also, the company's financial statement reveals that it is a going concern business that will operate for an undefined period.

**Concept of diversification**

The idea of risk diversification in investment refers to the process of allocating capital by potential investors in such a way that reduces extreme exposure to any common risk associated with a particular investment (Shurtleff & Aoyagi, 2018). Diversification helps potential investors to reduce the number of losses that might be incurred when a project is not viable.

In Scottie's case, she can diversify by considering the various investment potion provided by the company to reduce the number of losses. Even Santos Limited Company is one of the leading companies in the industry; Scottie should not consider investing in one stock of the company (Shurtleff & Aoyagi, 2018). As such, she should invest in various portfolios of the company to diversify multiple risks that might be associated with one investment.



**Alternative investment for Aunty Scottie**

Santos Limited Company deals in a variety of assets that are listed at the Australian Stock Exchange. As such, for Aunty to diversify her investments appropriately, she should consider investing in different classes of portfolios to reduce risks that might be associated with one company's assets (Shurtleff & Aoyagi, 2018). Some of the available company's products and assets that Aunty should consider are petroleum products such as diesel, oil, and petrol fuel. Besides, she should consider investing in lubricant products whose prices are not affected adversely by market inefficiencies.

**The beta coefficient of investment**

The beta coefficient is primarily used to measure the sensitivity of prices of a company's stock to move in the international markets. Currently, Santos Limited Company as a beta coefficient of 7.31 of the market price (Shurtleff & Aoyagi, 2018). The latter implies that the company is more volatile because it has more return than the expected market returns. Therefore, Aunty should invest in the company's stock now.

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