

**Managing currency
losses**

3 October 2018

The webinar will begin shortly...

Business & Management
20 minute lunch



corporatepartnerships@moneycorp.com



Managing Currency Loss

Tobias Woodward

Agenda



- ❖ Introduction to the FX Market
- ❖ Volatility and market movement
- ❖ Different ways of buying currency / hedging risk
- ❖ Practical Example
- ❖ Market Forecasts

The FX Market



- ❖ The Foreign Exchange market is the largest financial market globally - \$5.3 trillion traded per day
- ❖ FX Market vs Stock Market
- ❖ More than 85% of FX deals involve US dollar.
- ❖ Speculators vs transactional foreign exchange



Poll Question 1

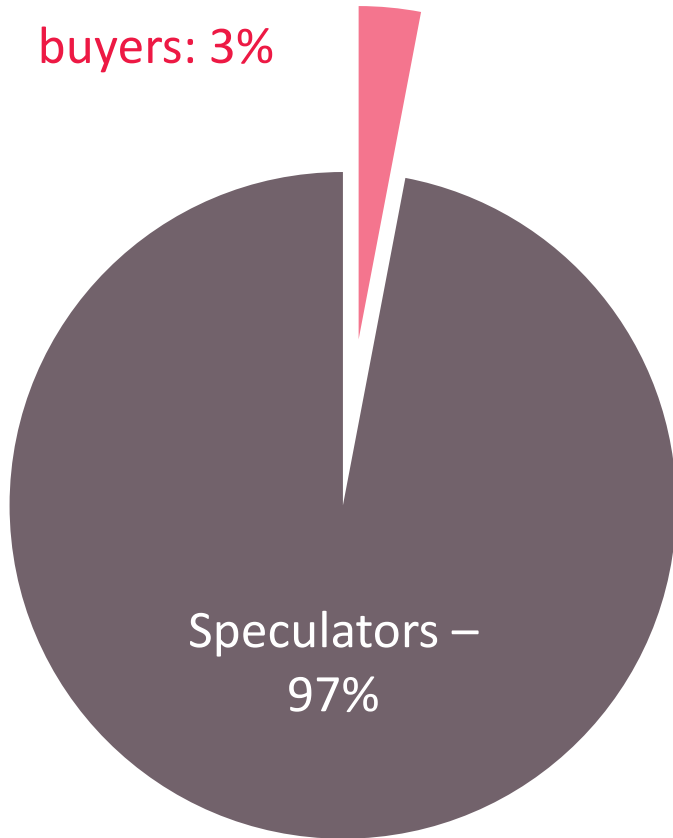
- ❖ What percentage of the market place are speculators as opposed to transactional buyers?

- ❖ Under 10
- ❖ 0 - 20%
- ❖ 21-40%
- ❖ 41-60%
- ❖ 61-80%
- ❖ 81-100%
- ❖ Over 90

The FX Market



Transactional
buyers: 3%



- ✦ Perception, fear and greed.
- ✦ Markets fluctuate constantly, making it difficult for companies to plan.
- ✦ Fluctuations can significantly add to costs, or erode profitability on projects and deals.



GBP/USD - Market Movements 6 Months

- ❖ 12% volatility - High 1.4376; low 1.2661
- ❖ When buying USD with £500,000 this translated to a difference of **\$85,750** between the year's high and low.





GBP/EUR - Market Movements 6 Months

- ❖ 6% volatility - High 1.1599; low 1.0984
- ❖ When buying Euros with £500,000 this translated to a difference of **€30,750** between the year's high and low.





When Purchasing Currency

❖ Opportunity





- ❖ Exchange rates go in your favour
- ❖ Reducing costs
- ❖ Increasing profit margins
- ❖ Potential to boost revenue

❖ Risk

- ❖ Exchange rates go against you
- ❖ Costs increase
- ❖ Profit margins reduced
- ❖ Potential to reduce revenue



Different Ways To Buy Currency

Online			
Spot	Forward	Market orders	Options
Immediate delivery	Lock in to favourable rates longer term	Target a rate and minimise risk	Fixed rate with potential upside
			
Over the phone			



Spot Contract

- ❖ Allows you to trade 'on the spot'
- ❖ Spot contracts are useful if you need to purchase currency and make a payment quickly.
- ❖ Allows you to fix an exchange rate and settle your deal the same day or **up to two working days in advance.**

Spot Contract



❖ Advantages

- Total market participation (buy when suitable)
- Total flexibility (no risk of over purchasing)

❖ Disadvantages

- No protection from negative market volatility



Forward Contracts

- ❖ Fix a rate up to two years ahead
- ❖ Complete protection from volatility





Forward Contracts

- ❖ Usually a level of flexibility (drawdown)
- ❖ Purchase obligatory
- ❖ Credit implication





Forward Contracts

Advantages

- Total protection from volatility
- No premium

Disadvantages

- Purchase obligatory
- No market participation





Market Orders

- ❖ Need to purchase currency but not immediately
- ❖ Target a favourable rate through a market order





Market Orders

- ❖ A **limit order** allows you to set a target exchange rate
- ❖ Will trigger currency purchase automatically when rate is hit





Market Orders

- ❖ Conversely, a **stop loss** order allows you to set a 'worst case' exchange rate.
- ❖ Again, triggers automatically when hit.

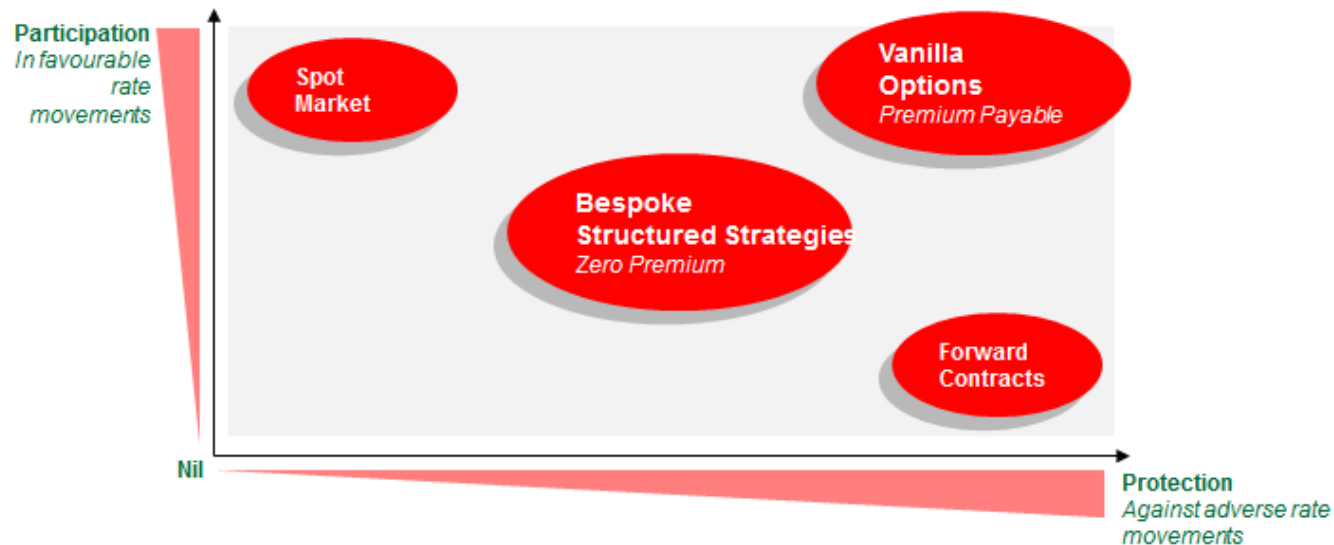


Options



- ❖ A **vanilla option** gives the holder the right but not the obligation to exchange one currency for another at a specified rate on a specified date in the future.
- ❖ Will always pay a premium
- ❖ FX options are regulated investment products that carry a higher level of risk than forward contracts

Risk-Reward Matrix of Alternative Hedging Strategies



Poll Question 2



Which products do you use the most:

❖ Spot

❖ Forward

❖ Market orders

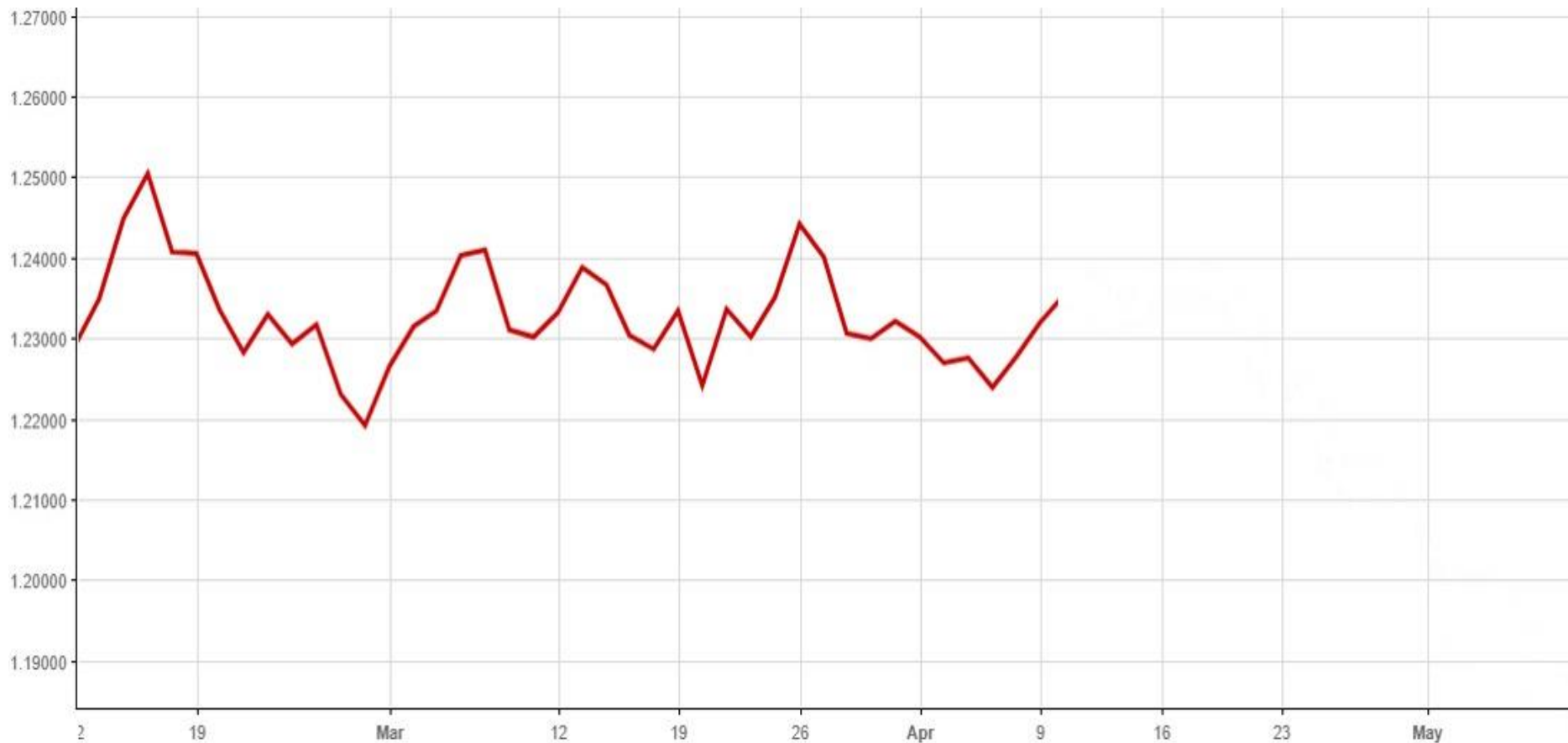
❖ Options

❖ Mixture



Example of a Business Requirement

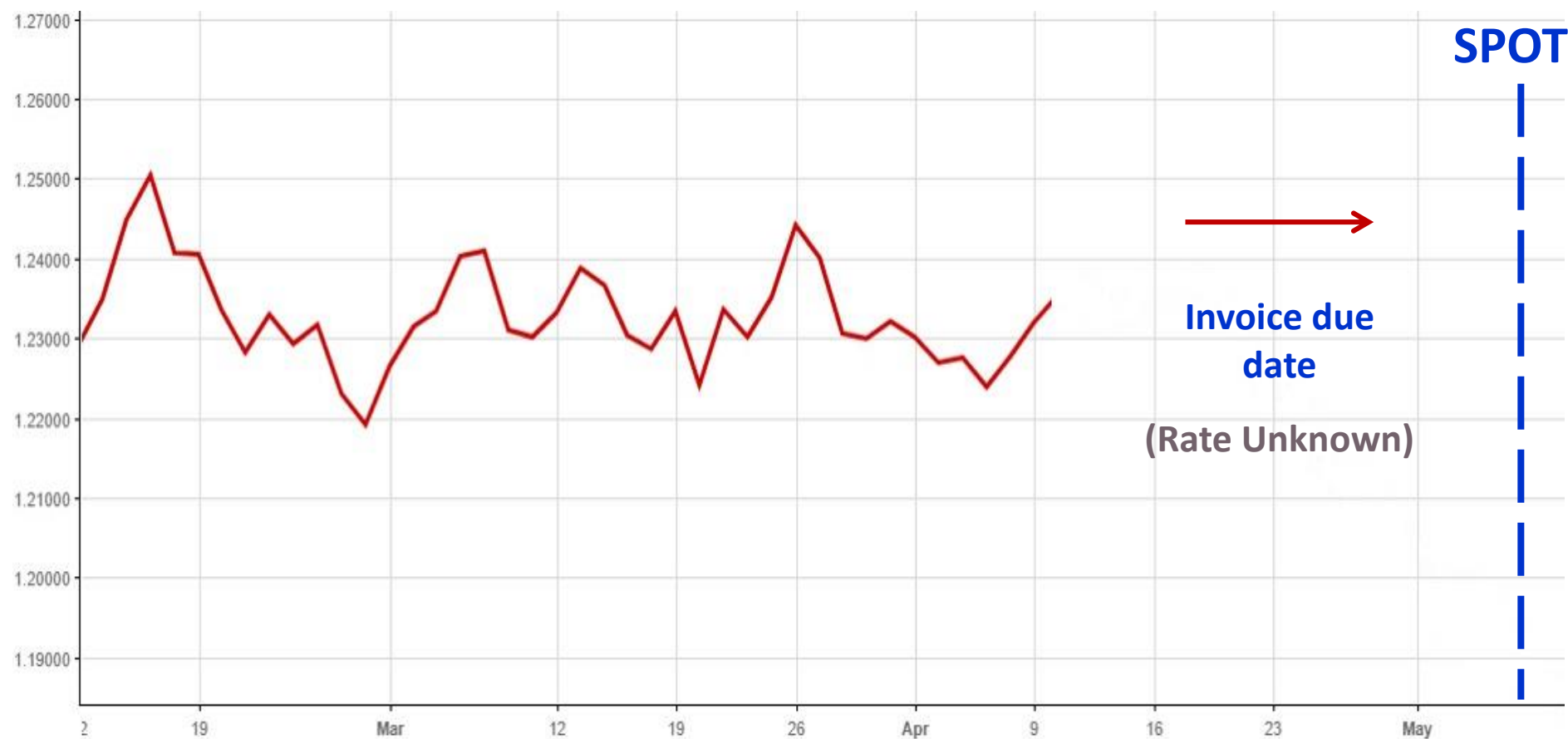
A business whose base currency is euros agrees a contract to buy raw materials from the USA at a cost of €500k. The spot rate on the day is 1.2340. They have to pay the invoice in dollars in 4 weeks - the rate is currently on an upward trend.





Spot Contract

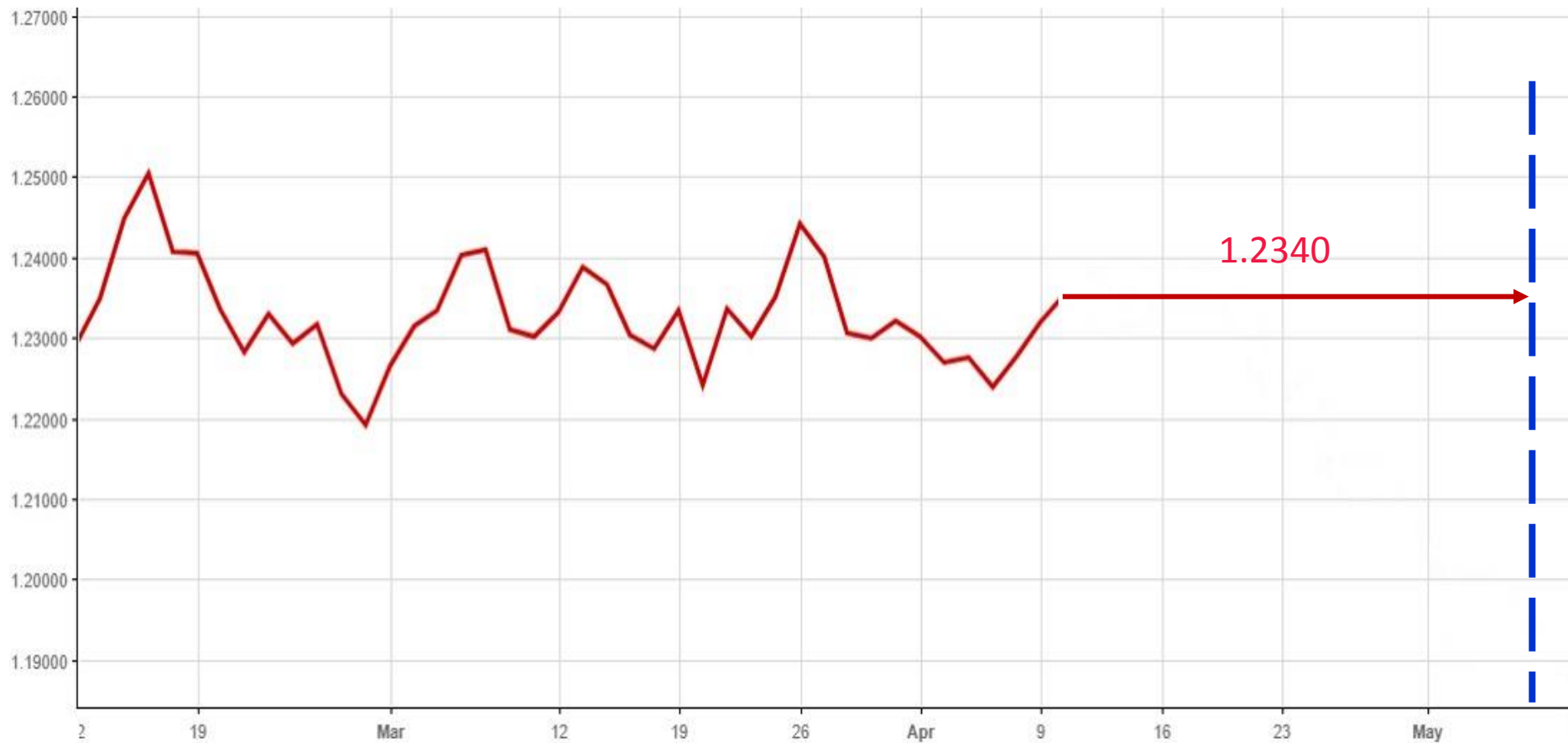
Buy on the day when the invoice is due.





Fix The Rate – Forward Contract

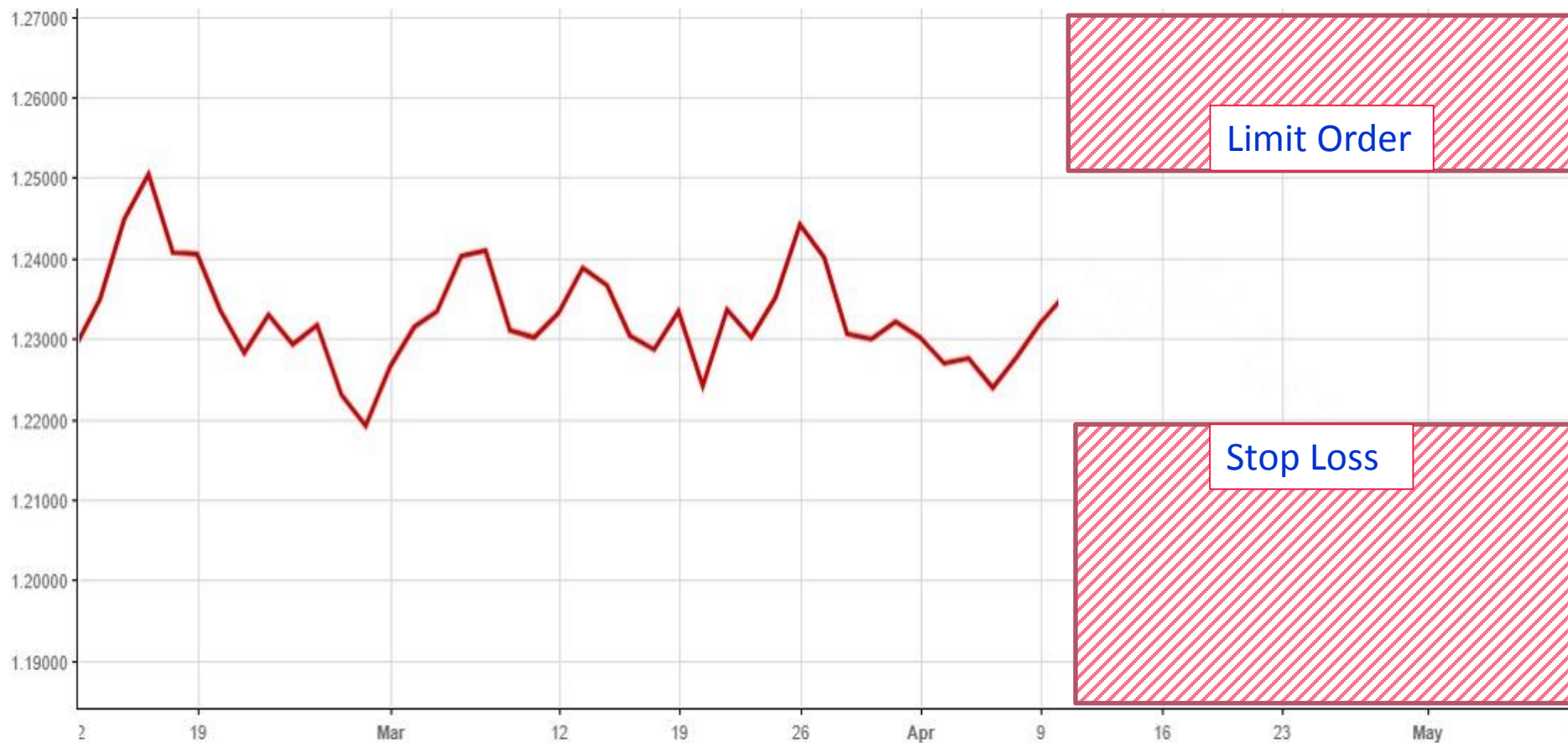
The company can secure the current rate for the four weeks at 1.2340





Target Rate - Market Order

The company can use market orders to target a rate by creating a limit order and stop loss





Which Strategy Would You Take?

This could depend on a business' attitude to risk, budgeted rates or preconceptions on the direction of the rate.





Poll Question 3

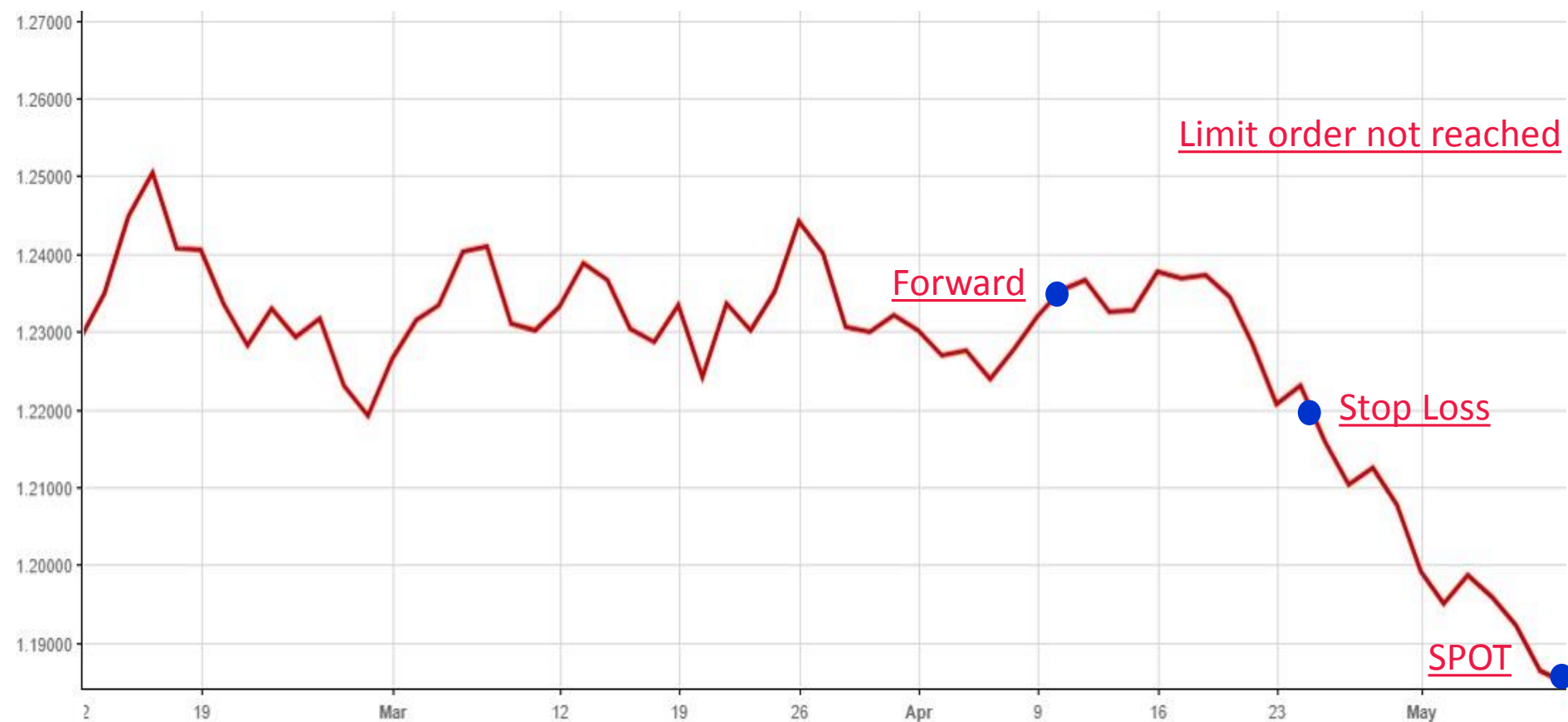
Which strategy would you take?

- 1) Buy on spot, and take risk of rate movement in the meantime
- 2) Put a market order in at a target price
- 3) Eliminate risk and take out a forward contract



Example of a Business Requirement

In this example, EUR/USD falls from 1.2340 to 1.1850.





Results

- ❖ In this example a client would have saved \$25,000 if they had fixed the rate with a **Forward Contract** (compared with SPOT).

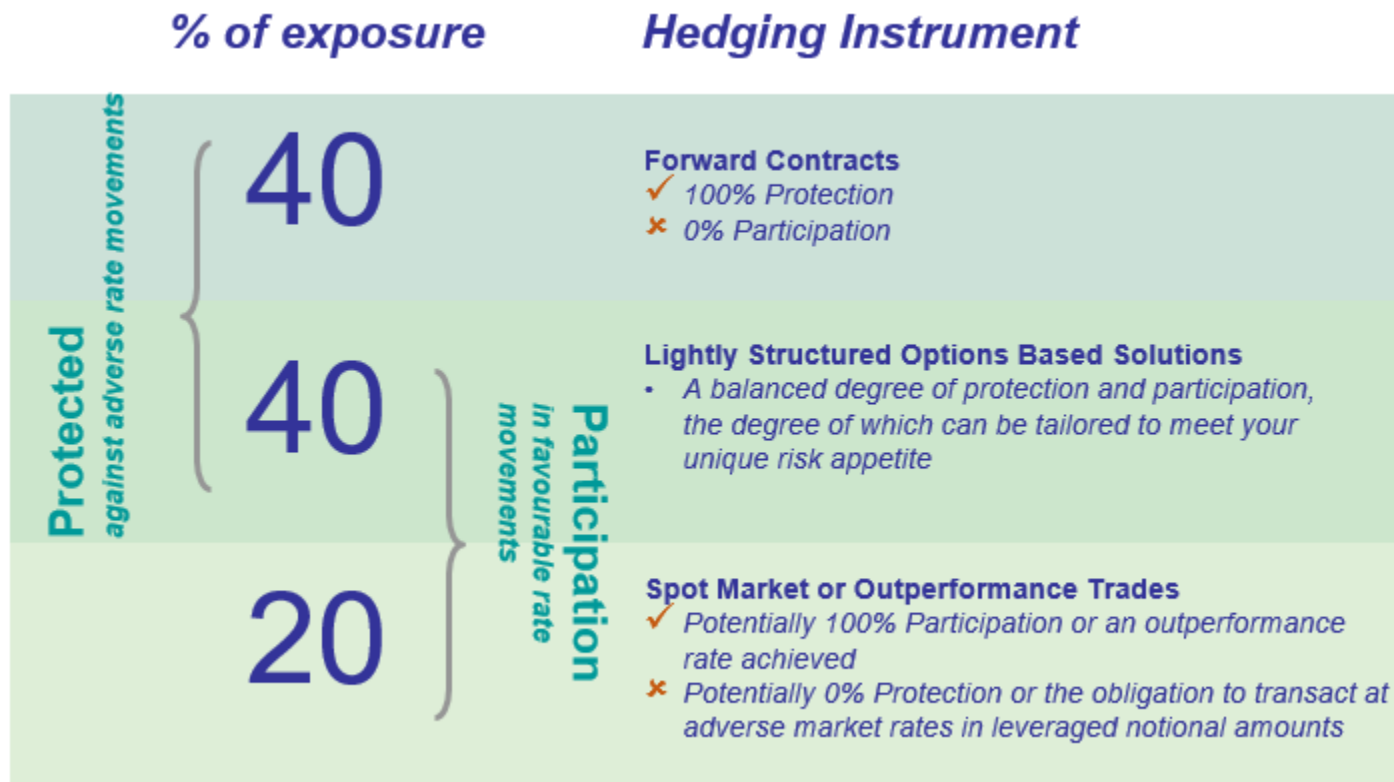
Action	Amount received	Difference
Forward Contract	\$617,000	+\$25,000
Market Order (stop loss)	\$610,000	+\$7,900
SPOT	\$592,500	0

- ❖ Nobody knows where the markets will move – if you have a budgeted rate, it's prudent to protect yourself, depending on your attitude to risk.



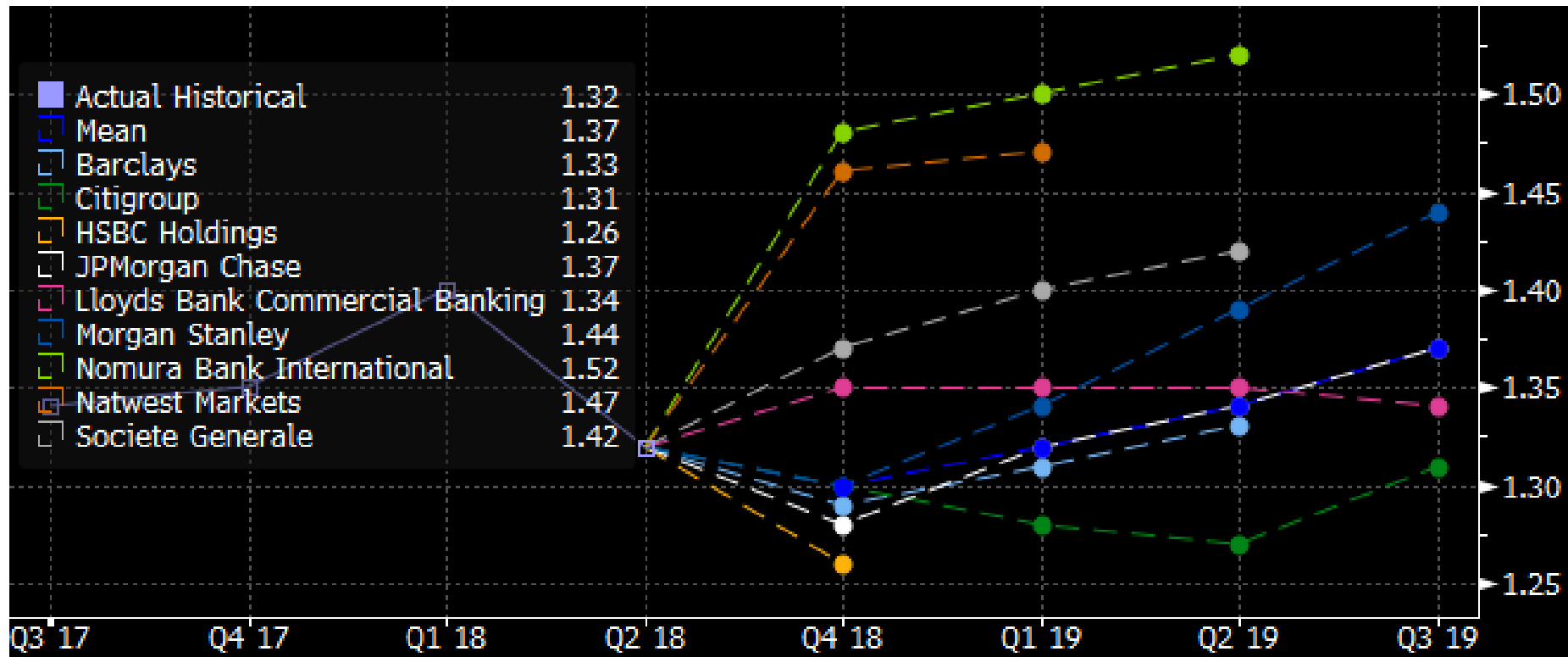
Hedging Strategy – Blended Approach

- ❖ The markets are unpredictable – not necessarily a right or wrong answer to which hedging tools to use
- ❖ Match your hedging strategy to your risk appetite / profile





GBP/USD Multi-Bank Forecasts

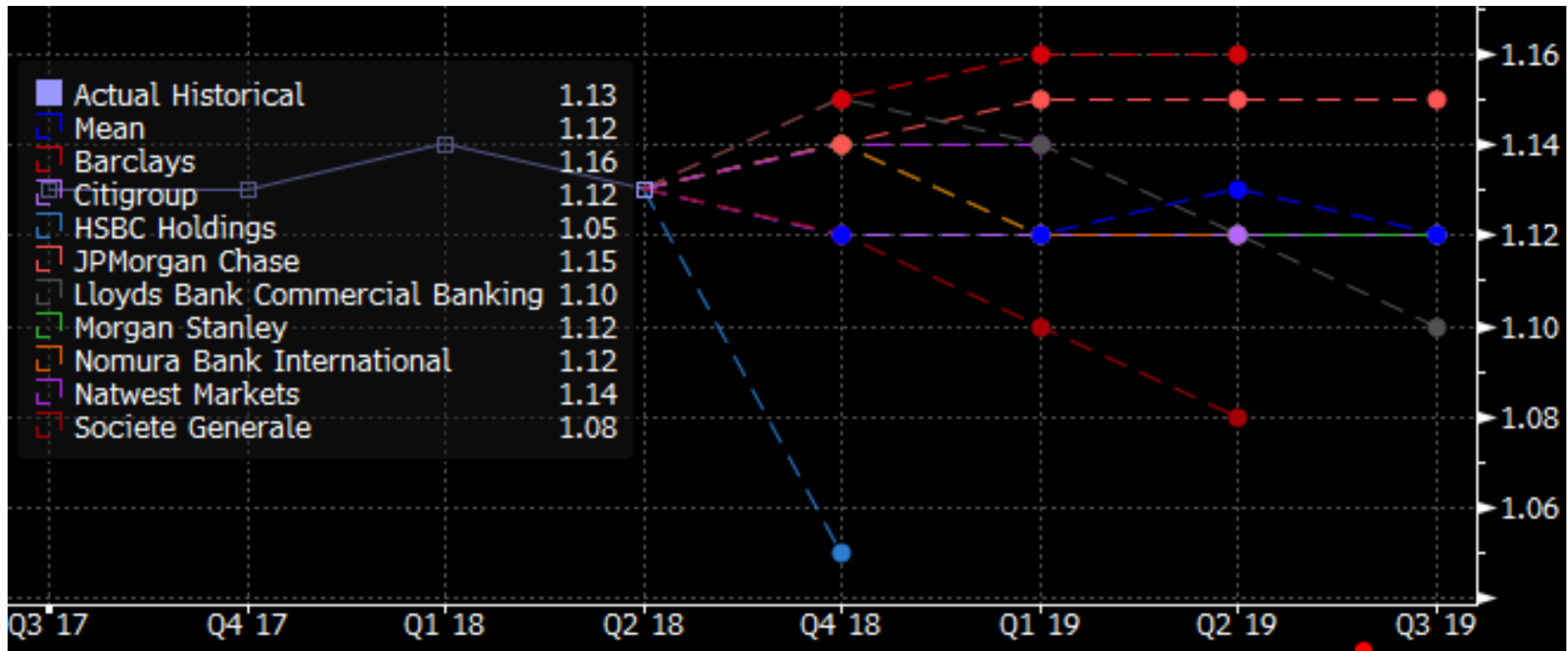


Currently: 1.30. In Q3:

- ❖ High – Nomura at 1.52
- ❖ Low – HSBC at 1.26
- ❖ Average – 1.37



GBP/EUR Multi-Bank Forecasts



Currently: 1.12. In Q3:

- ❖ High – Barclays at 1.16
- ❖ Low – HSBC at 1.05
- ❖ Average – 1.12

Current FX situation in UK



- ✦ Most UK companies still use their bank
- ✦ Rest with foreign exchange specialist - more competitive rates of exchange / expert guidance on the markets and hedging.
- ✦ Banks offering exchange rates that can be up to 1%+ worse
- ✦ Transfer Fees typically £20-£40

About Moneycorp



Locations

UK, USA, Ireland, Brazil, Spain, France
Romania,

FCA Authorised and Regulated

TTT Moneycorp Limited is authorised and regulated by the Financial Conduct Authority for the provision of payment services.

Expert Guidance

On the currency markets and hedging tools.

£33+ bln

Traded in currencies last year

Personal Service

Dedicated account manager

Free account opening

Usually open within a few days

Preferred partner

Telegraph, The Guardian,
BCC, CNN, The Post Office,
The City AM, Metro Bank, The FT

Highly Competitive Exchange rates

And payments



Final Thoughts

- ✦ If you have budgeted for a certain rate of exchange, your profit margins can be seriously affected by a negative turn in exchange rate.
- ✦ Create a hedging policy for your Foreign Exchange
- ✦ Review policy regularly
- ✦ Get the best rates and service
- ✦ Free rate comparisons available
- ✦ Would you like me to get in touch? Please wait and fill out the feedback form afterwards – tick that you would like us to contact you.

Business & Management Webinars and events – icaew.com/bamevents

Free 20 minute lunch webinars

Financial fraud – common red flags

17 October 12:30pm

[Icaew.com/lunchoct](https://icaew.com/lunchoct)

Brexit update

23 October 12:30pm

[Icaew.com/lunchoct2](https://icaew.com/lunchoct2)

Bring your own devices policies

6 November 12.30pm

[Icaew.com/lunchnov2](https://icaew.com/lunchnov2)

Stats skills in Excel – waterfall graphs

28 November 12.30pm

[Icaew.com/lunchnov](https://icaew.com/lunchnov)

Online e-learning

Leadership in an era of distraction

21/22 November 9.30am

[Icaew.com/leadership18](https://icaew.com/leadership18)

Free 60 minute webinar

Team leadership and management

14 November 10:00am

[Icaew.com/bamnovwebinar](https://icaew.com/bamnovwebinar)

Free event

Innovation and business development

13 November

[Icaew.com/bamnovevent](https://icaew.com/bamnovevent)

Business & Management

THANK YOU FOR ATTENDING

Contact the Business & Management Faculty

icaew.com/bam

✉ bam@icaew.com ☎ +44 (0)20 7920 8508

@ICAEW_finman

Join the Business & Management Faculty for £10 until
the end of the year using BAMPROMO

🖱 icaew.com/joinbam

