moneycorp

Assessing
FX Currency Risk
in your business

If you buy or sell goods and services from companies based abroad, your revenue is exposed to currency risk because currency values fluctuate.

Sometimes this can be good news – the drop in sterling following the EU Referendum in 2016, for example, meant that British goods and services were excellent value abroad. However, for those buying from abroad, it drove up costs.

Fluctuating currency values means costs from overseas don't remain static and revenue can't be guaranteed. This uncertainty generates a measure of risk, which makes it difficult to generate accurate forecasts and puts pressure on the bottom line.

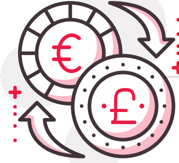
The extent of FX currency risk within a business depends on a number of factors, including the fraction of overall costs and / or revenue based in currency, the specific currencies used and the market forces in geographic regions.

Currency risk can be mitigated with an appropriate currency strategy and specialist tools designed to help companies limit their risk due to currency fluctuations.

Points of risk

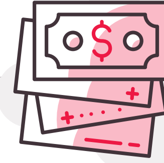
Buying from overseas

Some overseas companies may quote and invoice in pounds, but to limit their own risk, suppliers may add further margin to the cost, driving up prices. If they invoice in currency, the actual cost in sterling may be more or less than forecast because the time between quotation and payment of invoices, there could be a change in the value of the pound. While stronger sterling could be good news, a sudden drop in the pound can have a negative impact on costs.



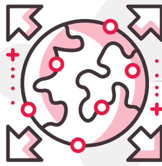
Exporting brand Britain

While global expansion can increase revenue, fluctuations in currency values may impact the profitability of improved sales volumes. Quoting prices in the currency of the destination country helps to build relationships with overseas markets but it means your company bears the risk of any changes in currency values.



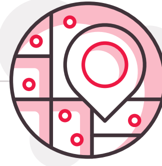
Multi-currency operations

Just as currency risk increases depending on the fraction of a company's costs and revenue paid and received in currency, multiple currencies may add further risk. This is due to the number of variables at play and the potential for added complexity. Resource costs for administering multi-currency operations can put additional pressure on margins already squeezed by currency fluctuations.



International partners

There are advantages to overseas partnerships, including local market knowledge and contacts. However, any costs or commission paid in currency will be subject to FX market fluctuations, making it difficult to forecast the impact on margins.

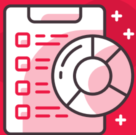


Overseas offices

Success in specific geographic markets may indicate the value of a remote sales team or international office to the business. Any payroll and office costs incurred in currency will be subject to FX risk and a sudden change in currency values could have an impact on the profitability of the office and the bottom line.

Supply Chain Costs

It is not simply the currency costs relating purchasing and sales that generate currency risk. Depending on the nature of the supply chain and location of the goods, logistics costs may be incurred in more than one currency. As with purchasing goods from overseas, the exact cost of these services will depend on fluctuations in the currency market.



Understanding your currency risk

A free currency audit from the expert corporate team at moneycorp allows you to view your current risk and assess future exposure. The FX currency risk report includes an overview of currency fluctuations against the pound for markets relevant to your business, estimated costs and potential savings for future international payments.

Currency tools

Spot Contracts

If you've been managing your international payments on an ad hoc basis to date, you are likely to have been using a spot contract. This applies the exchange rate on the day of purchase for receipt within two working days. This presents a high risk because of the unpredictable nature of the FX market.

Forward Contracts

For budget certainty, a forward contract allows you to fix a prevailing exchange rate for a set period of time. The risk is that the rate may improve compared to the fixed rate but a fixed rate allows for clear margins and less pressure on prices. This can work well for companies with accurately forecast overseas costs. Forward contracts may require a deposit.

Market Orders

To target a specific exchange rate, a market order can be placed and the currency is exchanged automatically if that rate is reached. This method includes some risk, because there are no guarantees that the desired rate is reached but you can specify both minimum and maximum rates in order to limit potential losses.

Currency Options

Currency Options require an upfront premium for the right but not the obligation to exchange a specified amount of currency at a known rate for a known date in the future. Options can be structured so that there is no upfront premium payable but this will involve increased obligations and/or risks. Please note that option-related products are regulated investment products which can carry a higher level of risk than forward contracts.

Managing international payments

In addition to specialist currency tools to address currency risk, the moneycorp online platform includes live statements, the ability to track and manage multi-currency payments and management controls including varying levels of access and approval.

Speak to a member of the expert team to find out how you can mitigate currency risk and costs.

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