moneycorp

The cost of currency volatility

FX fluctuations can impact your bottom line

A brief guide to why currency markets move, recent changes in the value of sterling, and how to mitigate risk.

Addressing the impact
of currency volatility

Currency volatility happens during periods of economic and/or political uncertainty. The value of the pound may fluctuate in response to unexpected economic results and in the run-up to a General Election. In recent years, the effects of volatility have been compounded by the major issues of Brexit and the pandemic. The more unpredictable the world becomes, the more unpredictable the currency market is and this volatility can lead to higher FX costs, even if the market moves suddenly in your favour.

Events causing volatility in the value of sterling

A number of events can cause market movements, here are a few examples of some of the major moments, and how currency was affected, over the last two years.

January 2019
Parliament rejected May's Brexit deal and the EU celebrated the 20th anniversary of the central currency. Trade tensions and a government shutdown had little impact on the US dollar.

April 2019
The Brexit deadline was delayed until 31st October 2019, and there were early signs of a slowdown in Europe as output and confidence measures dropped. The US dollar benefited from rising hopes of a trade deal with China.

June 2019
May resigned as leader of the Conservative party. The unexpected possibility of fiscal stimulus from the ECB pushed the euro lower.

July 2019
Boris Johnson was elected leader of the Conservatives, and committed to the 31st October Brexit deadline. The election of Kyriakos Mitsotakis in Greece lessened the risk to the euro as the downturn continued. Trade tensions between the US and China and the EU escalated.

August 2019
PM Johnson prorogued Parliament in an effort to focus on Brexit negotiations. The European Council President confirmed that the Irish backstop was "non-negotiable". Analysts kept a close eye on the G7 meeting in Biarritz.

October 2019
The Brexit deadline was extended to 31st Jan 2020, raising hopes of avoiding a no-deal departure, benefitting sterling and the euro, although the picture in Europe remained downbeat. Impeachment proceedings had little impact on the US dollar.

December 2019
PM Johnson won the UK General Election and vowed to "get Brexit done." Confidence wavered in Europe as Christine Lagarde took the helm at the ECB and stated that the ECB would be "resolute" in price stability. The US President signed off in principle on phase one of a trade deal with China.

January 2020

The UK formally left the EU, with a transition period in place until the 31st Dec 2020. Signs of a slowdown across Europe, exacerbated by trade tensions with the US, put pressure on the euro. A US air strike on Iran sent investors back towards the US dollar.

Feb 2020

The coronavirus pandemic takes hold. Countries across the globe go into lockdown. Many industries are forced to close, causing a global equity market sell off. Sterling drops to its lowest level for 25 years.

March 2020

The Bank of England cuts rates to an all-time low of 0.1% to address coronavirus pandemic. Rishi Sunak announces a package of up to £300bn to help bolster the economy.

April 2020

PM Boris Johnson was hospitalised and taken into intensive care while monthly GDP in the UK fell by 20.4%. The US unemployment rate rose to a record high of 14.7% as businesses closed across the United States.

June 2020

Fears over Covid-19 briefly subsided and markets reverted to risk-on mode. The start of the month saw increased dollar selling, with sterling recovering over 3% at the start of the month and the euro struggling as the ECB tried to reach an agreement over a recovery package.

July 2020

Rumours of an imminent agreement with the EU on fishing rights gave sterling a boost as investors turned from the US dollar amid uncertainty on many fronts.

August 2020

GBP/USD hit 1.32 as the US failed to get the virus under control and the November election came into focus.

September 2020

Boris Johnson proposed a controversial bill to override parts of the Brexit agreement. The EU began legal action against the UK after claiming the bill breaks international law. Sterling saw a sharp drop with a surge in volatility. USD capitalised on this and climbed against both the pound and euro.

October 2020

Trump, Covid-19 and Brexit once more caused movements. Sterling had an easy ride at the start of October considering the impending Brexit deadline and a new tiered approach to restrictions aimed to quell the pandemic. The US election dominated currency ups and downs, with the US dollar shaky in the lead up to November 3rd.

November 2020

Fallout from the US election dragged the US dollar down before Biden was officially declared as the next president. Another lockdown for the UK and continued Brexit uncertainty also affected sterling.

December 2020

The UK and the EU finally agreed a trade deal on Christmas eve, with sterling going from zero to hero. However, new tighter restrictions to curb a new transmittable variant of Covid-19 resulted in France closing borders with the UK for 48 hours, and over 40 countries blocking arrivals. Millions more were placed under Tier 4, making it inevitable that another lockdown in January and potentially a recession in the first quarter of 2021 is on the cards.

GBP/EUR

Brexit fears weakened the pound against the euro. Sterling made some gains as hopes of an agreement rose, but the pound has yet to recover from the result of the EU referendum struggling to hold on to any gains while the outcome of Brexit negotiations was uncertain.

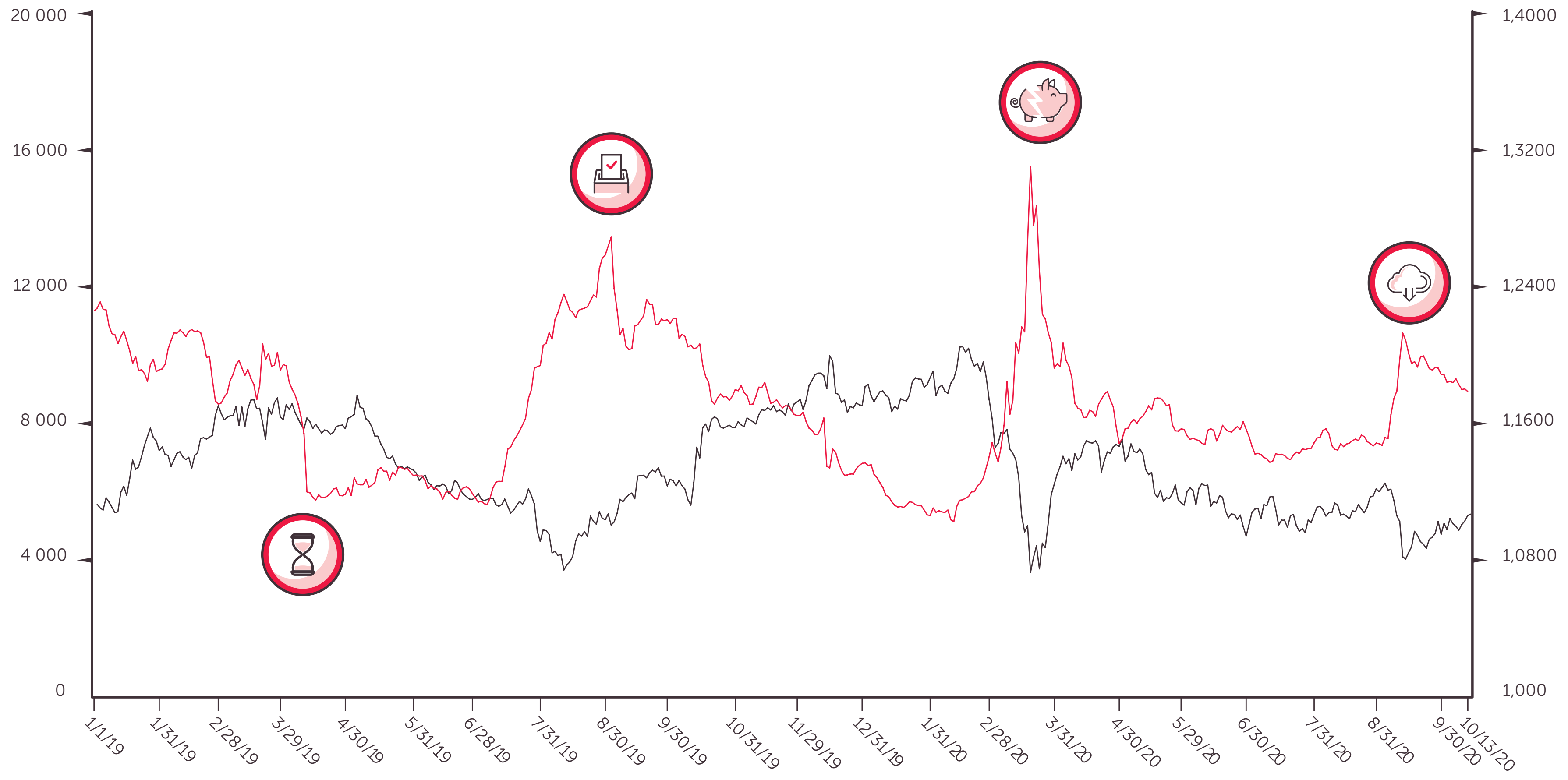
SPOT VS. 3M VOL

SPOT

The spot rate is the exchange rate at any given point in time.

3M VOL

The 3M Vol refers to the changing 'Volatility' measure of the currency pair, a calculation of how much it is currently moving, up or down.



GBP/USD

The GBP/USD exchange rate was mostly categorised by ongoing weakness until the pandemic brought the previously unassailable US dollar in check. Sterling approached the psychological barrier of 1.32 as the country struggled to get control of Covid-19 and the economy floundered.

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Managing FX transactions and currency risk

Invaluable expertise

Movements in the currency market can have a significant impact on your bottom line. In a rapidly changing world, it can be difficult to keep up to date with market movements. That's why we work closely with our clients to ensure they have the latest insights and guidance on the range of tools available to businesses. In partnership with our clients we create a bespoke FX strategy that helps to mitigate the risk of currency transactions. Our expert team is always on hand to help you make the most of overseas revenue and minimise your costs abroad.

Currency tools

Spot Contracts apply the exchange rate on the day of purchase and can be a high risk approach because of the unpredictable nature of the FX market.

Market Orders allows you to target a specific rate. There are no guarantees, so there is some risk, but it is possible to specify maximum and minimum rates to limit potential losses.

Forward Contracts fix a prevailing exchange rate for a set period of time. This may ease pressure on margins and prices but presents some risk if the value of the pound improves and may require a deposit.

Currency Options provide the right but not the obligation to exchange a specified amount on a particular date at a set rate. These regulated investment products carry a higher level of risk and may require an upfront premium.

24/7 online platform

An online multi-currency account allows you to manage funds and currency transfers for 33 major currencies through a convenient and secure online platform. You can make and track payments, view live exchange rates, make use of currency tools such as forward contracts and set alerts for your preferred exchange rate and market updates. You can also manage users and approval workflows and run real-time reports. Our platform includes a suite of APIs for seamless integration, facilities for bulk payments and functionality to reduce administration time and resource by simplifying the process for international payments.

Contact us

If you want to review your FX strategy or plan to make use of currency tools to address FX market volatility, our expert team are happy to help.

Get in touch with your account manager or request a free, no-obligation consultation. Quote the reference “volatility” and call or email us on:
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