Exchange rate risk management.

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"The only thing that is certain is uncertainty"

Importing/Exporting of goods and services means businesses have receipts in, or payments out, of foreign currency. The need to buy and sell that money has always needed planning and caused headaches, but never more so than recent years with Brexit and current world factors causing increased uncertainty and therefore extra movement in rates.

In the 12 months from Aug'17-Aug'18 the GBP/USD exchange rate moved between 1.2700 and 1.4300, a 12% movement.

For companies trading internationally, fluctuating exchange rates can be so difficult to manage and hard to budget for. If the markets move heavily against you it can erode or even eliminate profits and in a time of tighter margins and increasing raw material costs it is ever more important to protect yourself from exchange rate risk and make savings wherever possible.

Planning is the first step to managing your FX risk. Agreeing on a budgeted exchange rate for the year will guide your transactions. Your budgeted rate should take into account the volume and timing of your expected transactions as well as being a realistic assumption of current and future rates. It can help to define this rate by analysing past trends. Planning ahead will help protect your business from foreign exchange risk and even enable you to benefit from any exchange rate movements which are in your favour. This could make a huge difference to your P/L bottom line.

Nobody can pretend to know where rates are going – all the best analysis in the world cannot account for natural disasters, wars, the death of a political leader or the sudden turn-around in sentiment that often sparks a market to panic and can lead to the crash of a currency or commodity market.

What you can do with careful preparation and the use of market guidance is

negate your risk, as and when it becomes apparent. Using spot and forward buying or selling you can cover FX exposure as it is identified, so as not to leave yourself hoping that rates might go your way, nervously watching movements week by week until the day of need actually arrives.
If you have bought goods or services based on the FX rate seen today, if you have won a contract in another country that means you will receive payment in a few months' time, don't leave the exchange deal open to chance or luck. Negate the risk today, by dealing out to the forward date. You can then get on with your business knowing that your exposure is covered and taken care of.

Having access to a currency dealer to help you monitor the markets can enable you to make more timely decisions on when to buy/sell.
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