Is your business really ready for BREXIT?

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Supporting your business through Brexit uncertainty

To help you determine the best course of action for your business, Caxton's expert currency specialist, Rehan Ansari, has written a Guide to help you understand the risks relating to Brexit, your international payment needs and how to protect your business from ongoing volatility within the FX markets.

Helping businesses every step of the way to protect your bottom line through Brexit and beyond is what we do best at Caxton FX. For more information on helping you to deliver a simple but effective currency plan to drive growth, please contact Rehan directly.

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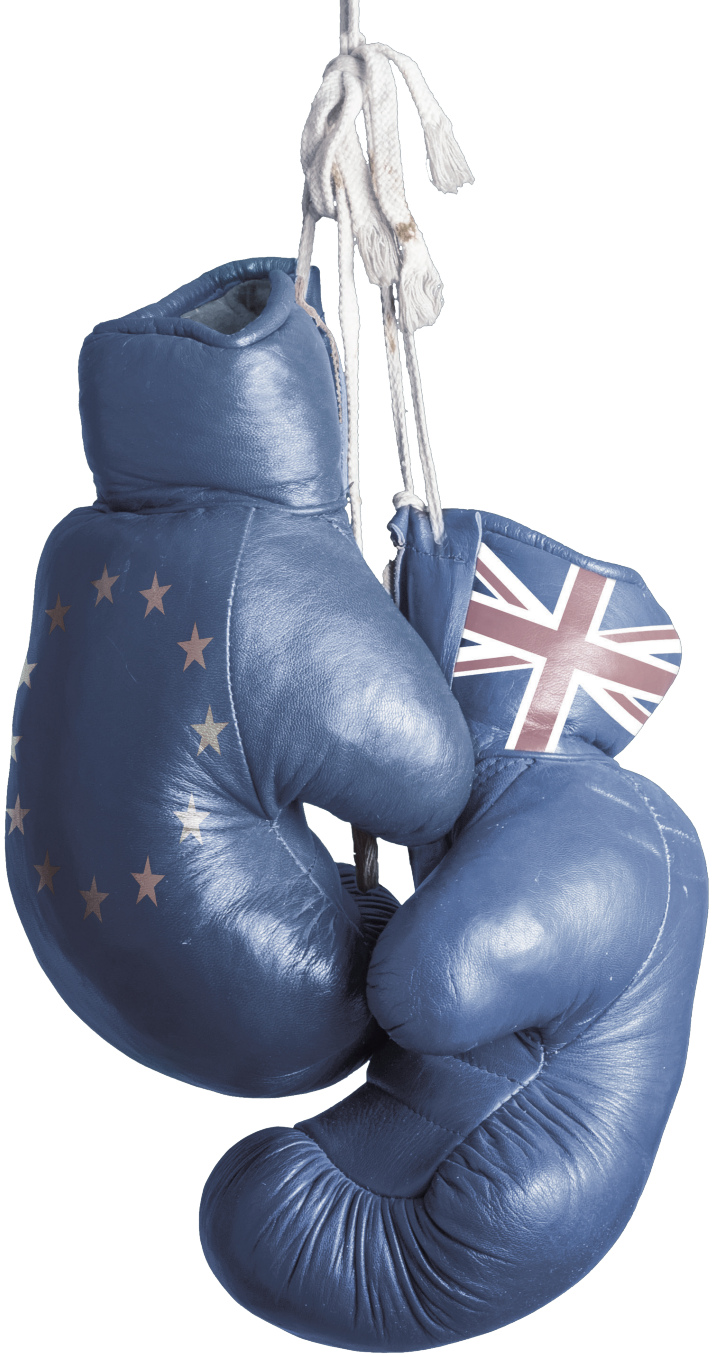
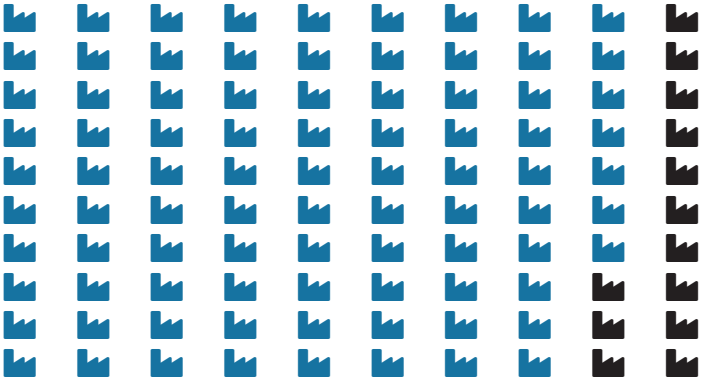
Is your business really ready?



Since the referendum, sterling has been extremely sensitive to economic data and political comments. Whilst the UK is still on course to leave the EU on 29 March 2019, this trend is set to continue until December 2020. Even if Article 50 is activated, EU law will remain in the UK as the two sides have agreed to a 21-month transition period to allow a smooth implementation of whatever Brexit deal is negotiated to minimise disruption to businesses.

Having a currency plan to support your business through Brexit is critical for success as the UK and EU continue through the ongoing Brexit negotiations.



87%

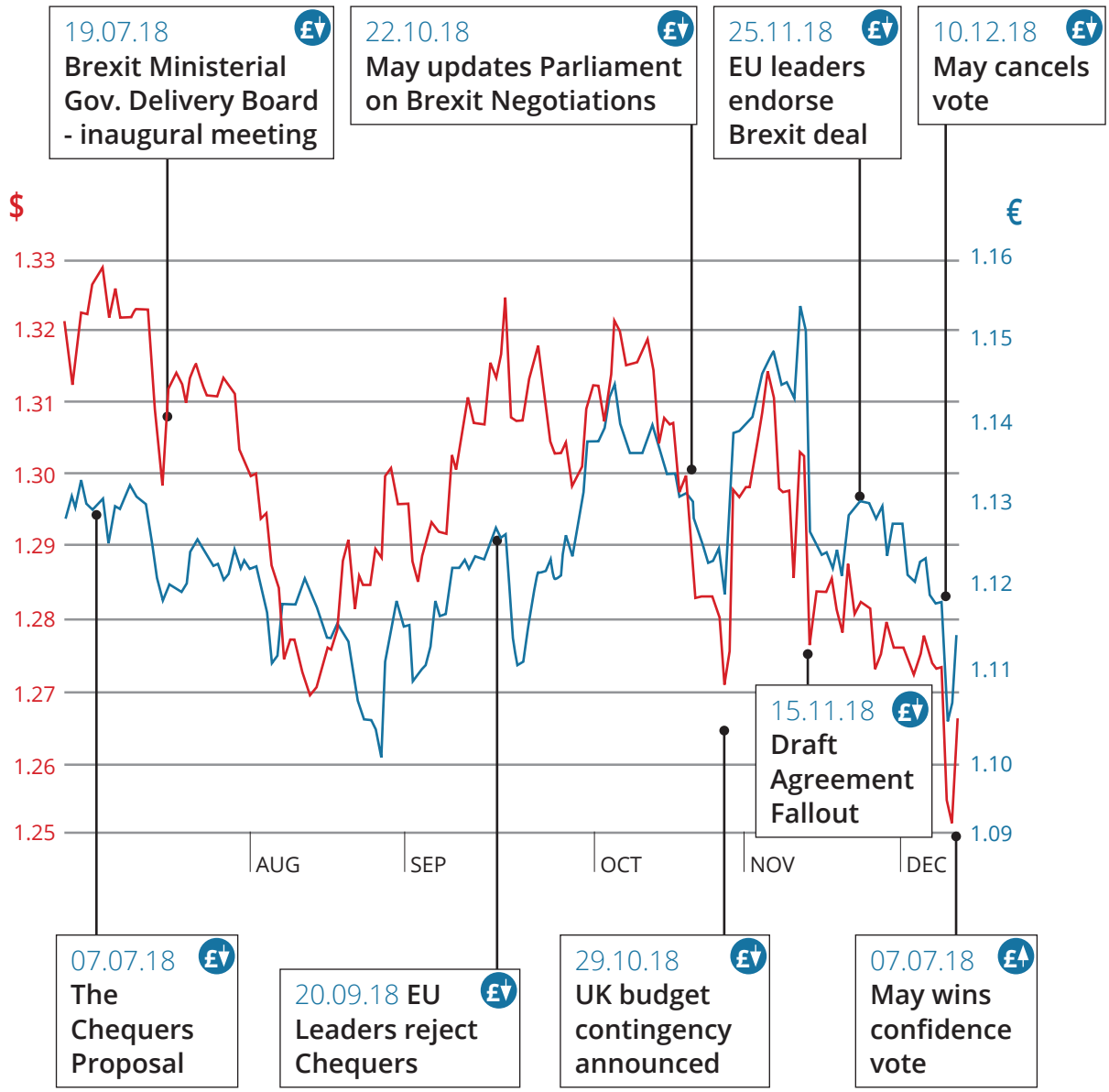
87% of companies surveyed expect Brexit to have an impact

Source: State Street 2018

Expect further volatility

Yes, the initial doom and gloom was overstated, it was borne of a belief that there would be an immediate economic impact, however the UK economy has remained resilient. Looking at the Caxton currency chart below, you will see that the economy has NOT been the driving force behind currency volatility since June 2016, but political events and market sentiment have.

GBP/EUR AND GBP/USD VOLATILITY SINCE JULY 2018 WITH KEY DATES FOR POLITICAL EVENTS THAT MOVED THE FX MARKETS



What's next for sterling?

This is difficult to determine until we have certainty or sight of likely negotiated outcomes. Currently, we have a market in a state of flux, which is leaning towards political influences and reacts to statements as opposed to the traditional and more rational technical and fundamental market data.

Potentially, we are looking at another 2 years of sterling bouncing along a corridor of political tensions and arguments as Brexit lurches uncertainly towards whether the UK negotiates its trade policies pre and post March 2019.

NO DEAL

Exchange rate uncertainty

High market volatility

Difficulty forecasting due to currency movement

Uncertain trading practices

Leadership challenge/election

MAY'S DEAL

Market confidence

Liquid markets

Optimistic sentiment

Understanding of trading practices

"In the current economic environment, if you're not hedging you may be speculating"

Rehan Ansari, Head of Options

As Brexit negotiations continue, we can expect further volatility to unfold over the coming months and years.

BREXIT TIMELINE

25 NOV — Emergency EU Council meeting

EARLY DEC — Debate in Commons

11 DEC — PM Theresa May wins confidence vote

13-14 DEC — EU Council meeting

20 DEC 7 JAN — House of Commons Christmas recess

21 JAN — Deadline for UK Parliament vote on next steps including the postponed "Meaningful Vote"

FEB MAR — EU Pariament Vote

21-22 MAR — EU Council meeting

29 MAR — UK leaves the EU — Transition period begins IF deal is agreed

20 MAY — European Parliament election

31 DEC 2020 — Transition period ends

How will this affect your business?

Businesses that export their products and services without having to purchase raw materials from abroad can capitalise on the weaker pound as their exports could appear cheaper.

Businesses that rely on raw materials from abroad (importers) will feel the effects of a weaker sterling as it won't stretch as far as it used to.

The BBC reported in September 2018, the retailer Next warned that that a no deal Brexit could lead to port delays and increased tariffs. Next said in the "unlikely event" that free-trade agreements were not put in place, it could send the cost of goods soaring by up to around £20m, which would add less than 0.5% to its prices.

We all feel a sense of urgency and the need to predict what might happen to the economy post Brexit. Predictions of uncertainty in exchange rates, interest rates, import and export agreements are rife and up until it happens, theoretical.

As a net importer, the UK is vulnerable to any depreciation in the value of its currency and as a business you will need a plan to navigate through likely future volatility due to ongoing Brexit negotiations.

Building a currency strategy to be Brexit ready

As a business, implementing a simple but effective 'currency strategy' will help your business manage any future volatility, so get ready!. Following the 4 steps below will help you understand your currency risk and plan for ongoing Brexit negotiations and likely FX market volatility.

Define your objectives

This will be determined by internal policy on currency risk and influenced by cash flow requirements to cover operational costs and invoice payments.

Decide a hedging ratio

Having defined the hedging objectives, the next step will be to decide is the hedging ratio (i.e. what proportion of exposures to hedge) appropriate for your business, risk appetite, and the risk management horizon.

Evaluate your timing

For instance, a tour operator may have a risk management horizon extending from one to six months. Alternatively, a company with an extended P2P process could typically hedge over one to three years.

Evaluate hedging approaches

Once the hedge ratio and appropriate time horizon has been determined, treasurers can decide what style of hedging will allow them to meet their risk management needs most precisely, this can be:

Rolling

Hedging every month for the corresponding month e.g. companies that have ad hoc requirements and forecasting is difficult.

Static

Hedging all of your exposure at the start of a hedging period, this will typically be for a fairly certain currency exposure where your main objective is to protect your budget rate, some participation may be desirable to improve your hedge. Forecast rebalancing is not usually a requirement of this strategy.

Layered

Inevitably, hedging strategies have been moving away from the annual, static set-and-forget hedging programs and finding more flexibility in the layering strategy. This allows companies to adjust hedges throughout the hedging period as forecasts become more accurate and favourable currency movements occur, all while maintaining a base level of downside protection at or close to their budgeted rates.

Other key future events likely to trigger volatility

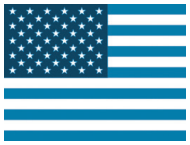
Along with ongoing Brexit negotiations – trade talks, border controls, customs union, passporting rights for financial firms and banks - there will be other key risk events that will likely cause further volatility in the FX markets to keep an eye on:

UK

11 Dec 2018	House of Commons vote
29 Mar 2019	Britain leaves EU
Jan 2020	Carney's term as BoE Gov set to end
31 Dec 2020	Transition period ends

EUROPE

23-26 May 2019	European Parliament Elections
Oct 2019	Greek Legislative Elections
Oct 2019	Portuguese Legislative Elections
Jul 2020	Spanish General Election



US

3 Mar 2020	US primaries
3 Nov 2020	US presidential elections (also House of Reps, Senate)

Be Brexit ready

Due to recent volatility, companies are realising that a key component of protecting their working capital, profits and earnings is the implementation of more thorough risk-management processes. Businesses with exposure to foreign currencies are prioritising the cost of their foreign exchange and developing more flexible hedging strategies. This enables them to respond more effectively to the challenges of the landscape they now face.

For further information on how to implement a simple but effective currency plan to prepare your business for Brexit, please contact Rehan.

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Protect against adverse price movements

Manage risk of currency fluctuation

Take advantage of favourable prices to remain competitive

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