moneycorp

The cost of currency volatility

FX fluctuations can impact your bottom line

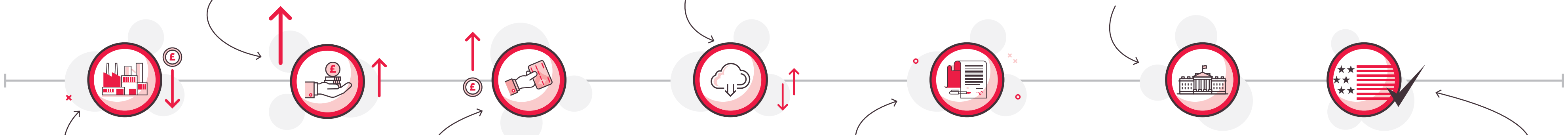
A brief guide to why currency markets move, recent changes in the value of sterling, and how to mitigate risk.

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. Recently, the effects of volatility have been compounded by the major issues of Brexit, the Pandemic and US elections. The more unpredictable the world becomes, the more volatile the currency market is, which 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.



May 2020

UK industry continued to suffer following April's fall in GDP with data across the board pointing towards difficult times ahead. Sterling continues to struggle with Brexit remaining in the headlines.

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.

January 2021

Sterling saw fresh highs against the euro and US dollar, climbing to its highest level against the euro since May 2020, and against the US dollar since May 2018. Joe Biden became President, and all eyes are on his spending plans, with expectations of more economic stimulus in the States.

February 2021

Sterling shot up in February, hitting fresh highs against the euro and the US dollar as the target to vaccinate 15 million of the UK's most vulnerable was reached.

March 2021

Supply chain issues and vaccine availability continued to be relevant factors, but attention turned towards inflation, bond yields, and further US stimulus talks.

April 2021

Sterling remained undervalued this month despite a continued vaccine rollout and a sense of returning to normality. Focus has turned towards the future of the union and new UK-EU trade relationships.

May 2021

There were positive signs for sterling as the easing of Covid-19 protocols proceeded as planned throughout May, coupled with strong election results for the government. There was also excitement around the dollar as the Federal Open Market Committee talked about tapering the Fed's asset purchase program for the first time.

June 2021

Sterling succumbed to the growing pessimism that new Covid variants were spreading too quickly to allow for a rapid re-opening of the UK economy. Restrictions were extended into July, hope within the travel industry for a busy summer faded, and the pound weakened. Focus is on the future of the union and the success of various new trade relationships.

GBP/EUR

Sterling has made gains against the euro, reaching its highest level since May 2020 as a Brexit deal swooped in and vaccination rollout is well underway. However, new post-Brexit border arrangements caused a few sticking points.

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 saw a fresh high against the dollar, not seen since May 2018. As we see Joe Biden sworn in as president, new spending plans and further economic stimulus is expected.

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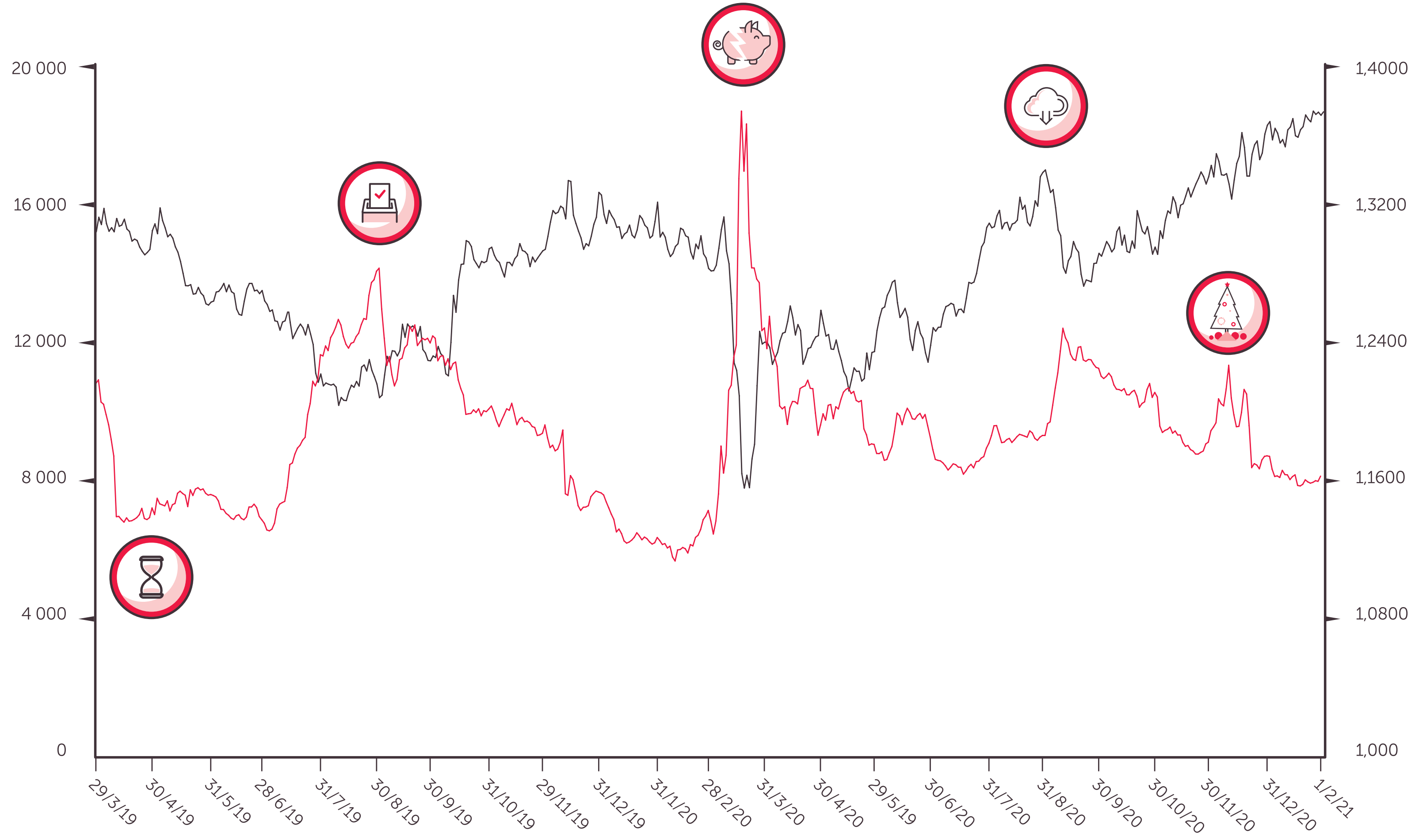

Managing FX transactions and currency risk

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 opportunity 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 is 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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