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BREXIT, CURRENCY VOLATILITY, IMPORTED INFLATION BUSINESS UNCERTAINTY

Imported Inflation

Global political and economic uncertainty has created an environment of unprecedented volatility in the major global currencies, with sterling being a key victim of the political backlash of the Brexit vote that will certainly create imported inflation which we hope (possibly in vain) will be matched by export growth.

UK based industries that are typically US Dollar denominated are going to be particularly hard hit due to imported price, increased complexity and transparency demands as finance and treasury staff grapple with accounting and reporting challenges caused by the vast currency fluctuations within short periods of time.

It is not only the imported or exported item that is to be considered, also the cost of shipping and duties that will directly impact the cost of the imported product, negatively - being either USD denominated or a ratio of a higher sterling cost.

Interesting Counter Strategy

There are some interesting strategies that importers can consider, most likely to be effective in this short post Brexit window of new uncertainty which is impacting exporters into the UK and UK based customers buying products that have imported components. A good double strategy being deployed is to:

- Encourage suppliers to the UK, to set prices on a bulk order, confirmed, to be supplied over the longer term, at a fixed price
- Encourage customers to place bulk orders to be delivered over time, set at a fixed cost

This allows the importer to place a firm, large order, gain discounts for volume and certainty, fix the exchange rate and provide their UK or international customer with a fixed price for a period during which the currency and global prices are likely to result in the product becoming more expensive.

This delivers a win, win and win situation for all three parties and in the bigger picture protects against excessive imported inflation and creates a degree of calm and certainty.

Currency Complexity

The currency management is in itself a science, and a market that will be guaranteed to offer you many opportunities of thinking you could have done better. Hedging strategies need to be aligned to the business, the cycles of suppliers and customers, cash flows, credit lines, forex instruments, currency providers, costing policies, management reporting, and so the list continues...

Forex risk to your business can be managed, even in this, the largest, most liquid and volatile global market. The business needs to know how to consider its own needs first, how the accounting is correlated to the forex strategy and instruments used and how these impact customers and any sales incentivised staff.

Do you need Risk Management Support?

There is no better time to be speaking to an independent expert to help navigate these extremely volatile and uncertain times.