



Foreign Currency Exchange and Foreign Markets

The Challenges of FX Risk

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About Me



Bob Dowd Chief Executive Officer, North America

A 35 year veteran of the foreign exchange and payments industry as well as a certified treasury professional (CTP). His extensive industry experience includes 25 years with Travelex Global Business Payments, where he was a member of the North American Executive Board, 6 years with Cambridge Global Payments where he was Managing Director and 3 years with Currency Exchange International and its wholly-owned Canadian subsidiary Exchange Bank of Canada as Senior Vice President, North America. Bob has held a number of senior positions throughout his career, and has extensive experience spearheading strategic partnerships and leading industry segmented businesses, including financial institutions, education, travel, ecommerce and legal. In his previous roles, was instrumental in implementing a vertical approach to the business, supported by widespread territory and market segmentation.

Bob joined moneycorp in April 2019 where he oversees the overall business in the United States and expands the business into the Canadian market.

Bob has been a long-standing member of The Electronics Payments Association (NACHA) and the Association of Financial Professionals (AFP). Bob has served on AFP committees, lending his experience and expertise in developing unique and valuable tools for financial professionals related to Global Treasury Services.

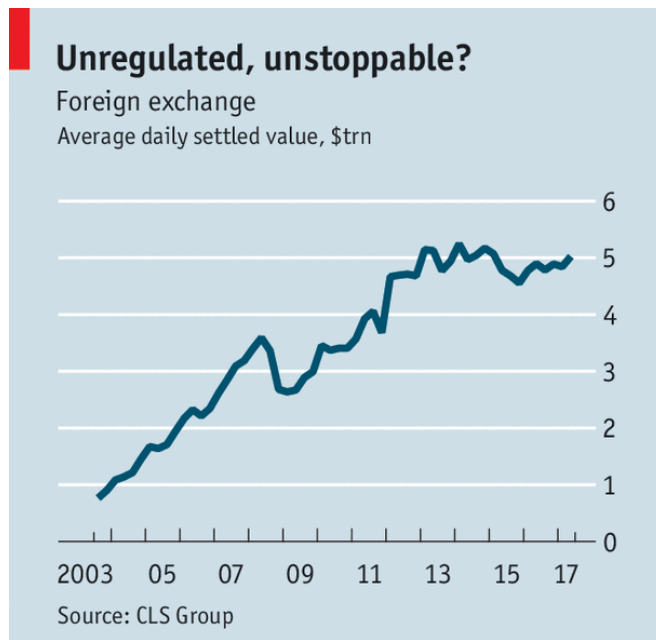
Foreign Currency Exchange

The idea of exchanging one currency for another seems simple enough. But understanding who and what is actually involved can be somewhat more complicated.



What is The Foreign Exchange Market

The foreign exchange market is by far the largest financial market in the world. On average over **\$5 trillion** is exchanged daily by FI's, corporations and individuals.



Economist.com



What Affects a Currency's Value

Moves in the market are caused by vast amounts of currency being bought or sold. Specialists in the market pay attention to many different areas and ultimately make speculations over what is about to happen.

For the most part, these split into two categories:

- News and economic releases that hint at moving interest rates (Central Bank rate decisions, inflation reports, unemployment reports, GDP numbers, oil prices).
- Changing risk environment (elections, geopolitics, terrorist threats, economic agreements).



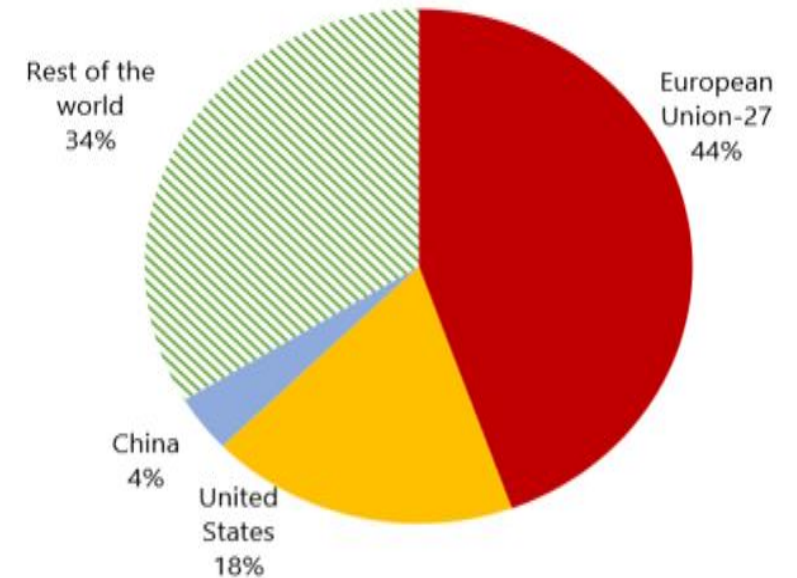
Brexit – How Did They Get There

- UK always a bit on the outside- love-hate relationship with Europe
- Businesses constantly complaining about EU regulation
- UKIP largest party in European elections in 2014 forced issue – Brexit party
- Bad campaign poor arguments from Remain, lies from Leave
- Benefits of being in the EU never explained
- Opening up markets to European workers before others - massive inflow
- Immigration a big issue-though more fears of refugees from outside Europe
- The European continent seen as a failed state - Eurozone crisis
- Money spent there ‘wasted’, it could instead helped UK needs.
- ‘Taking back control’ from an ‘undemocratic’ institution
- No stomach for ‘ever closer union’

EU-UK: the closest of partners

The EU is the UK's largest trading partner. UK exports to the EU account for about half of its total gross exports.

(percent)



Source: Office for National Statistics.

Brexit – Financial Services Challenges

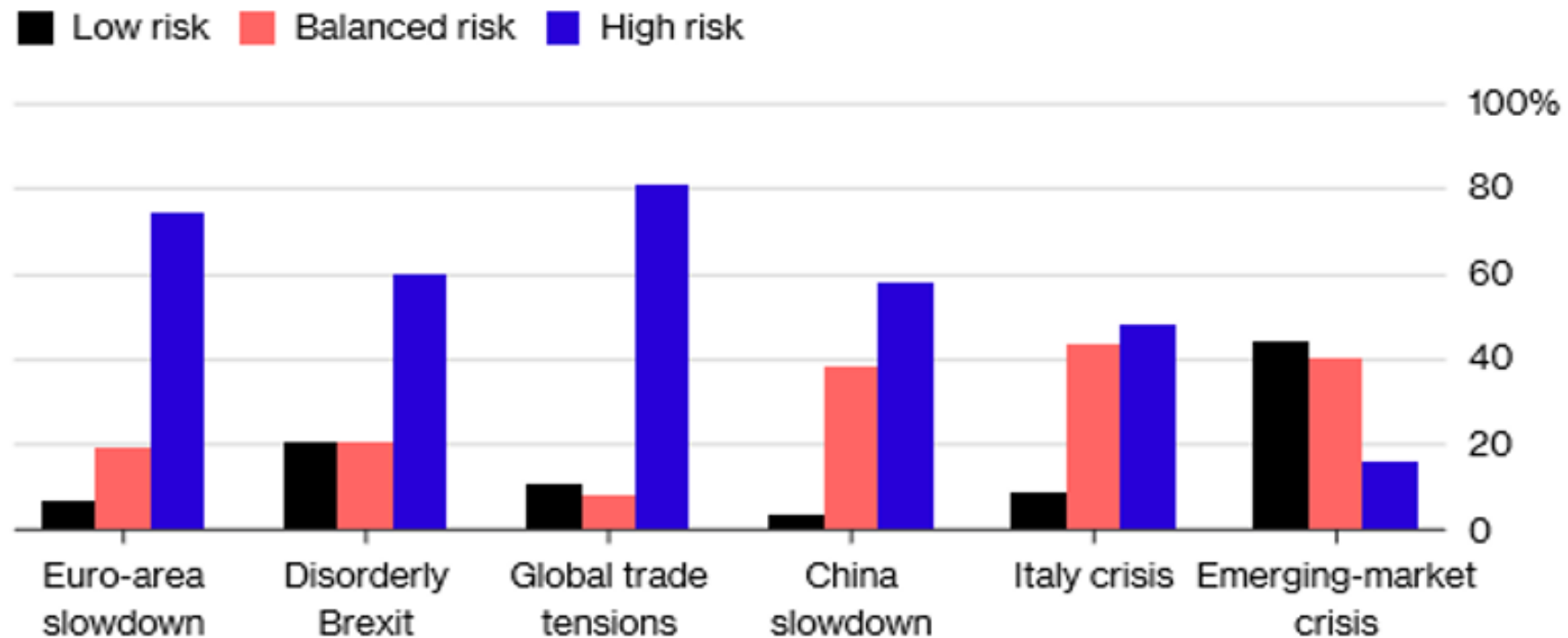
- Services largest part of the UK economy
- London is the financial center for Europe, lifeblood of the UK
- Financial sector contributes 10% of GDP
- Employs 1.1M people
- Financial sector surplus with rest of the EU some £20B
- Large service development as eco system supporting financial sector
- Worries about ability to trade across borders in frictionless way
- Most Free Trade Agreements don't cover services properly
- Will firms relocate if 'passporting' ends
- Worries about loss of talent in migration cuts bite
- Worries about loss of Euro-clearing, European Banking Authority etc
- What Brexit will mean for asset management firms,
- What Brexit will mean for insurance companies, Lloyd's of London
- Concern about data use if outside the EU - GDPR
- Concern about regulatory stance and requirements for 'equivalence'
- No mutual recognition in financial services likely

KEY CHALLENGES OF BREXIT FOR THE FINANCIAL SERVICES INDUSTRY?



Brexit – What's the Impact

Economists see Brexit as a major risk to Euro Area growth



Source: Bloomberg

Brexit – What's the Impact

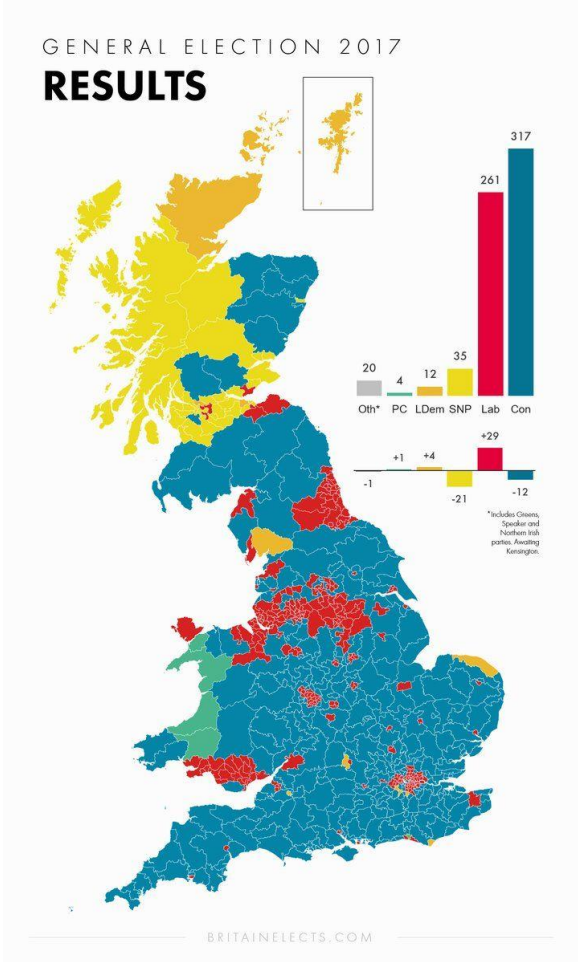
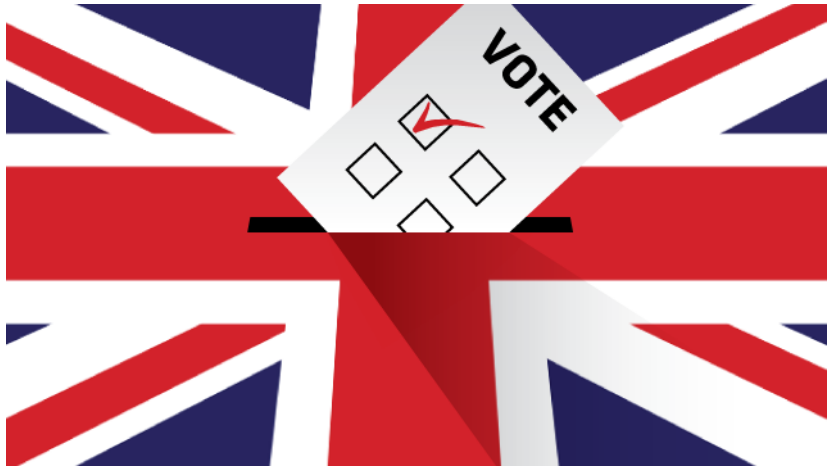
- **What UK is leaving**

- The EU is a Single Market of 28 countries and 500mn consumers accounting for 20% of nominal world GDP which takes 45% of UK exports
- Unlike normal FTAs, the EU Single market covers services as well as goods and removes non-tariff barriers (harmonises regulation, standards, qualifications) as well as internal tariffs
- Good for consumers through deregulation (travel, mobiles..), economies of scale, innovation, increased productivity, lower prices internally
- UK benefits from EU Preferential Trade Agreements with 60 countries and other specific agreements (from fishing to digital to nuclear).

- **But UK doesn't know what it will get instead**

- Whatever deals it does with EU and third countries will probably leave it worse off – it's just a matter of degree of self-harm
- Leaving the Single Market and Customs Union means putting the friction back into trade with EU New Free Trade Agreements with far-flung countries won't make up for these losses
- Tariffs imposed on trade with the EU will affect many sectors
- Financial sector future uncertain given likely loss of mutual recognition of regulation when UK leaves
- If no deal pound could fall sharply as no deal only partly priced today. If the UK remains or gets further extension the pound could rally, at least momentarily. Today's election could reverse this.

Brexit – Next Steps

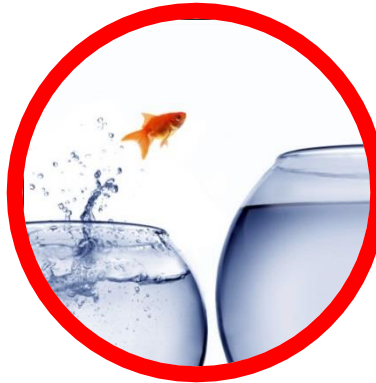


Brexit – Impact to the United States

- As we move ever closer to the January 31 Brexit deadline one has to wonder what kind of effect will Great Britain leaving the EU have on the US economy.
- For American companies selling product to the UK a no-deal Brexit would most likely see the Pound move lower and make U.S. goods more expensive as well as disrupt supply chains for US companies operating in the UK.
- For American's travelling to and from the UK, we can expect new regulations that will affect criminal checks, passport controls, and medical insurance just to name a few. Most importantly, exchange rates will be affected which mean travel costs for UK citizens will likely increase while it will likely decrease for US citizens.
- The possible political implications of a no-deal Brexit are certainly weighing on investors' minds. Wall Street is very sensitive to global economic concerns as we have seen with the US-China trade talks and a no-deal Brexit could send investors into a selling frenzy.

Defining and Understanding FX Risk Management

New way to
look at FX
Risk
Management



Why include
FX Risk
Management
in your
business?

- Features and Characteristics of Currency Risk
- GBP and EUR Currency Movements
- Benefits of FX Hedging

- Features of Effective FX Risk Management
- FX Hedging Instruments
- Focus on The Process

Features and Characteristics



In practice, if a firm reports in USD, but holds assets or liabilities in GBP, the value of those assets will rise and fall in GBP terms if the USD appreciates or depreciates over the reporting period. This proves to be especially difficult if a significant portion of the firm's balance sheet items are denominated in a foreign currency.

Three Categories of Currency Risk:

1. Balance Sheet

Focuses in translation risk that seems to mitigate or neutralize these currency effects on the balance sheet or income statement.

2. Net Cash Flow

Focuses on transaction risk

3. Economic and Financial

Focuses on a combination of material balance sheet transactional and income statement cash flow risks where economical or financial risks are material

GBP and EUR Currency Movements

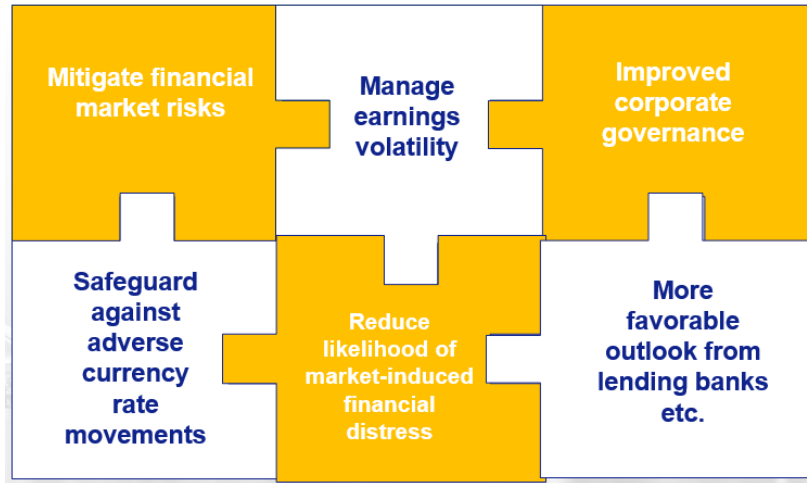
GBP/USD - 36% Market Movement Over 2 Years



EUR/USD - 15% Market Movement Over 2 Years

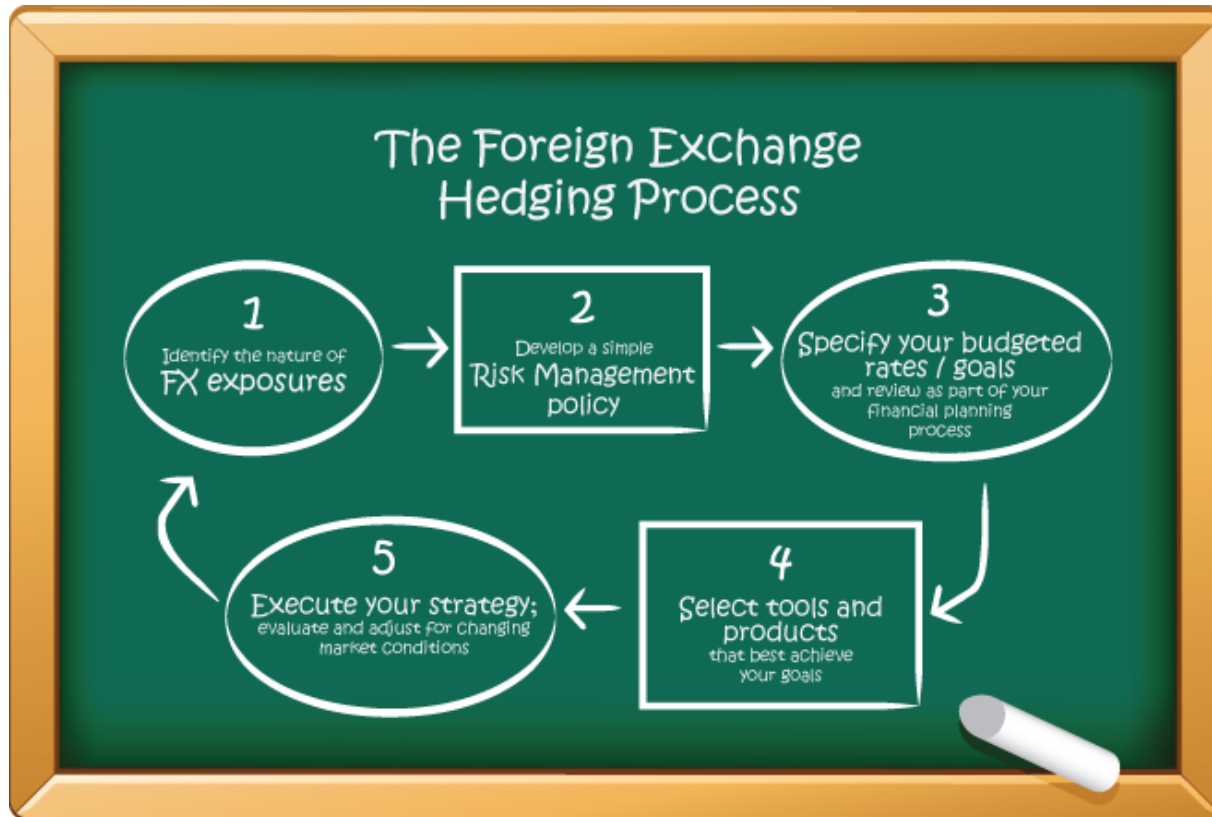


Benefits of FX Hedging



- Mitigate against the business risks associated with FX fluctuations.
- Improve your cash flow predictability and bottom line revenues.
- Achieve or outperform budget rates, benchmarks and financial targets.
- Remain competitive within your industry by reducing the impact of adverse currency movements.
- Minimize anxiety from risks associated with transaction, translation and economic exposures.
- Focus on core business activities.

Features of Effective FX Risk Management



FX Hedging Playbook

1. Identify Exposure
2. Formulate Policy
3. Determine Goals
4. Formulate Strategy
5. Execute Strategy
6. Evaluate Results and Adjust

FX Hedging Instruments

There are a multitude of FX hedging instruments available today – these range from forward contracts to derivative instruments such as vanilla currency options and zero-cost strategies

We can provide customised solutions tailored to your hedging requirements and risk appetite

We have a vast amount of experience and will manage the transactions and exposures throughout the life of the currency hedge. This will include the provision of revaluations and restructure ideas on a periodic basis

Risk-Reward Matrix of Alternative Hedging Strategies



Focus on the Process

