GLOBAL AMBITIONS

International business for mini-multinationals

The ups and downs of the UK's EU referendum

WHERE DO YOU STAND?

Intro to forward contracts

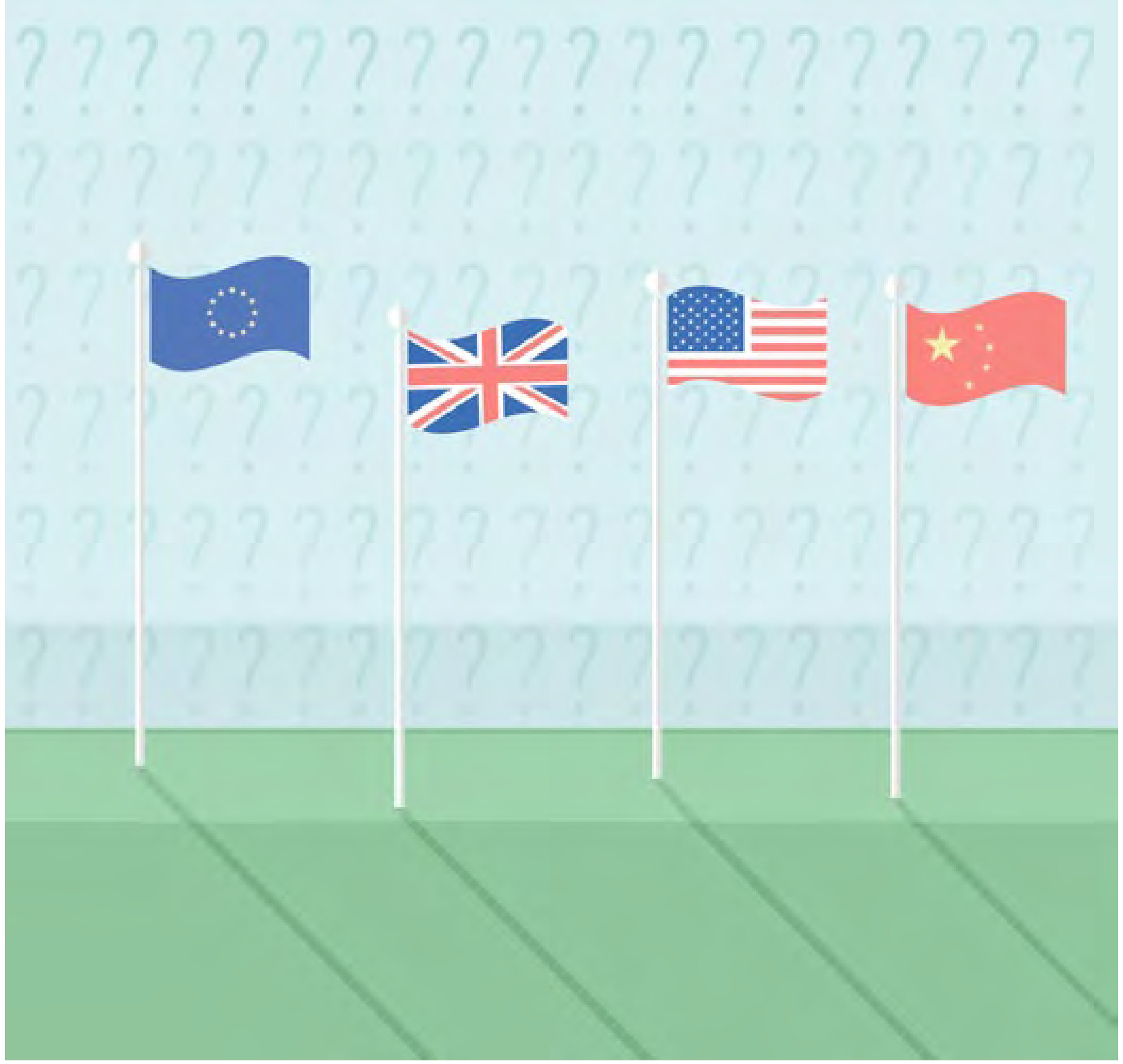
Five places to do business in 2016

Our currency essentials

ISSUE 1

WorldFirst

What's inside...



Don't let global winds blow your international dream off course

In January it was Switzerland, in May it was the UK, in July it was Greece (again) and most recently it has been China. 2015 was a busy year for global events that shook – and yes, stirred too – the global economy, causing winds that buffeted small businesses – or worse. Naturally, these winds are most keenly felt by firms trading internationally but, in truth, they can affect all small businesses.

Far-flung causes, local effects

While the cause often takes place halfway around the world – take the Chinese slowdown for example – the effect on businesses both home and abroad can be profound. These events cause currency volatility and if you buy or sell overseas, you will feel the impact. The reality, however, is that the effects are almost impossible to avoid. Currency volatility can even affect you if you are buying from, or selling to, someone who buys or sells overseas.

So, what does the rest of 2016 hold? These five issues will be ones to watch as drivers of currency movements over the course of the next 12 months or so:

1. The EU Referendum

A similarly existential question to the one asked of the Scottish electorate a little over a year ago that created uncertainty and hit GBP. Some economists predict that it could cut UK growth by as much as 6% in the 12 months after the vote.

2. China

The wheels on the world's second largest economy are starting to wobble as it transitions from an economy based around cheap manufacturing to one reliant on consumption. The global effect of a slowing China is prompting concerns over international trade, and high-end retailers like Burberry have already seen profits slashed as a result.

3. The Federal Reserve

The US economy is in a strong enough position at the moment for the US central bank to begin to reduce the amount of crisis-level support it has been using. This means interest rate rise; something that started in December but further moves may already be in doubt. And let's not forget that there's an election this year too.

4. Currency War

Central banks cut interest rates to boost growth and make exports more attractive. Retaliation from others sees currencies devalued and a currency war break out that could lead to failing economies, rampant inflation and corporate bankruptcy. The opening salvos of such have already been fired in Asia.

5. Oil

Oil prices have slumped in the past year but can they remain this low? Markets seem to think not and a rising oil price will constrain growth in Western economies as consumer spending falls.

Of course, these shouldn't stop your international expansion plan to become a mini-multinational but it does mean you should tread carefully.

An international currency expert, like World First, can help you build a strategy to manage these headwinds and any more that may crop up in 2016.

Need help with a poor pound?

Your essential guide to forward contracts

2016 has already seen sterling break some longstanding records, not least 7 year lows against the USD and near 3 year lows against the yen. The pound has been beset on all sides by everything from Chinese growth concerns, low oil prices, the UK's referendum on EU membership and global market volatility all having an impact.

Between the end of November and the beginning of March, sterling fell by 18% against the yen, 11% against the euro and 8% versus the US dollar. These losses were avoidable however.

A simple solution

Most of you will have heard of, or possibly even used, a basic forward contract to protect yourself. The product is a classic and represents a simple, off-the-shelf way of managing and protecting yourself against a foreign currency exposure.

Put very simply, a forward contract allows a company to purchase an amount of currency for a set time in the future.

The price will differ from the spot rate as the market calculates a forward rate depending on the difference in the interest rates between the two countries.

Forward rates do not represent predictions of where the market is expecting exchange rates to be in the future, however; they are merely calculations of future interest rate expectations.

These products allow individuals and businesses to hedge themselves against unfavourable currency movements as far as three years into the future.

Risks and rewards

The risks with a forward contract are that the market may move in your favour over the lifetime of the contract. In this case you would remain hedged at the rate you booked at, not at the better rate. We may also ask for additional deposit against the contract.

Overall, what businesses find attractive about forward contracts is the certainty they provide, and should your business opt for one, you'll benefit from knowing in advance what you'll pay when striking contracts and deals with suppliers.

Our recent survey* found that 78% of UK SMEs recognised that having a proper currency strategy could improve profitability.

* 1,006 senior decision makers at UK SMEs with foreign exchange needs were interviewed between 30th November and 3rd December 2015 by Censuswide.

"Put very simply, a forward contract allows a company to purchase an amount of currency for a set time in the future."

5 PLACES TO DO BUSINESS IN 2016

A strong strategy is a diverse strategy investors will tell you. Similarly businesses need to diversify their sales environments, operations and risks. Diversification can be about acquiring new customers; some will be looking to expand, some to consolidate, some to dip their toe in a new market for the first time.

Much like you would not launch a new product without the necessary research into costings, distribution and competitors, opening your business to international expansion needs an exceptional amount of planning.

Here we will take a look at 5 countries that we are tipping to do better than most in 2016, places where a business looking to expand abroad may find some real joy.

1. China

Our top pick is China for obvious reasons; the world's second largest economy is going through the most ambitious change in economic history since the 1950s and the emergence of the 'American Dream'.

The Chinese economy is in the midst of change, retooling its economy away from low-cost, high-supply manufacturing to a more specialised sector with the slack taken up by a services industry powered by an emboldened and growing middle class. At least, that's the plan.

China's trade visit to Britain last year was touted as the beginning of a 'Golden Decade' for relations between the two countries but it needs to improve trade figures first and foremost. According to the IMF, only 5% of the UK's exports go to China – less than go to Ireland and only slightly more than end up in Belgium. For context, 65% of our exports end up in the EU or the US.

The Chinese economy is slowing to a more sustainable level of growth and opportunities abound for both etailing and more traditional corporate customers if they are able to serve this generation of Chinese consumers and high-tech manufacturers.

Previous heavyweights such as power generation, automobile and steel production may fade with semiconductor, communications and medical sectors taking the baton.

2. Vietnam

Vietnam is not going to be the next China, but is trying its damnedest to be.

The shift in Chinese manufacturing practices away from stack-it-high-sell-it-cheap goods to a much more specialised area leaves a gaping chasm in the world of manufacturing. The garment industry is being hotly tipped as an area that will make the switch with one province of Vietnam garnering around $1.5bn of foreign investment purely for the industry in the first 5 months of this year.

These exports are likely to remain cheap as well. The Vietnamese dong (VND) is the least valuable currency in the world - £1 buys 34,000 of them at the time of writing – and the central bank has devalued its currency three times this year. The per/hr cost of manufacturing labour is around 60% of China and Thailand.

Finally, of all the signatories of the Trans-Pacific Partnership (TPP) trade deal, Vietnam stands to benefit the most given the access to much larger markets that it will gain.

3. Singapore

Like most emerging market economies, Singapore is in the midst of a China and commodity driven slump.

Like most emerging market economies, Singapore is in the midst of a China and commodity driven slump. Pressure had been building on the Monetary Authority of Singapore to acknowledge these pressures and do something to weaken the SGD below its trading band that keeps it as stable as it can be against the dollar at its meeting on October 14th.

Currency war speculation has seen a marked increase since the yuan devaluation in August and regional currencies that have high trade coefficients and competitiveness with Singapore (Malaysia, Indonesia, South Korea, Australia) have all benefited from loosening of monetary policy locally.

As much as the political situation is in hand in Singapore, made all the more so by the resounding win of the People's Action Party in September's elections, the political scandal rocking the Malaysian PM at the moment has had a strongly negative effect on trade between the two countries.

The country however is part of the TPP trade deal as well and the signatories represent a large market for Singapore, accounting for 30 per cent of its total trade in goods in 2013 and 30 per cent of foreign direct investment into the country.

Although Singapore is already an open economy, the trade pact is still expected to boost trade and investment links between Singapore and key markets in the region and elsewhere in the world, including in fast-growing Latin America.

4. Australia

The Australian economy has had a pretty poor 2014 – as the Chinese economy has slowed, the Australian economy has been dragged back with it.

'Terms of trade' is a lofty economic phrase for a very simple concept – if digging stuff out of the ground forms a sizeable portion of your economy's output then changes in the market value of that stuff will impact your country's economy.

The Reserve Bank of Australia has cut interest rates twice in 2015 and is expected to cut further as we move through 2016 – and it is still our belief that further weakening of the AUD is due as it remains the Reserve Bank of Australia's favourite way of loosening financial conditions within the country. We are still yet to see whether the Turnbull leadership will allow for the kind of changes and reforms that the Australian government needs in the longer term.

We are bullish on China moving into 2016 and as a result we have to be bullish Australia as well.

5. Iran

If the TPP deal was the biggest trade deal of the year, then the deal struck between the US and Iran over the latter's nuclear program must be the political deal of 2015.

Under the terms of the agreement, now that Iran is beginning to deliver on its commitments the European Union and the US will end sanctions on Iran's trade, financial and energy sectors. This will likely take months but we expect positive movement through the remainder of 2016.

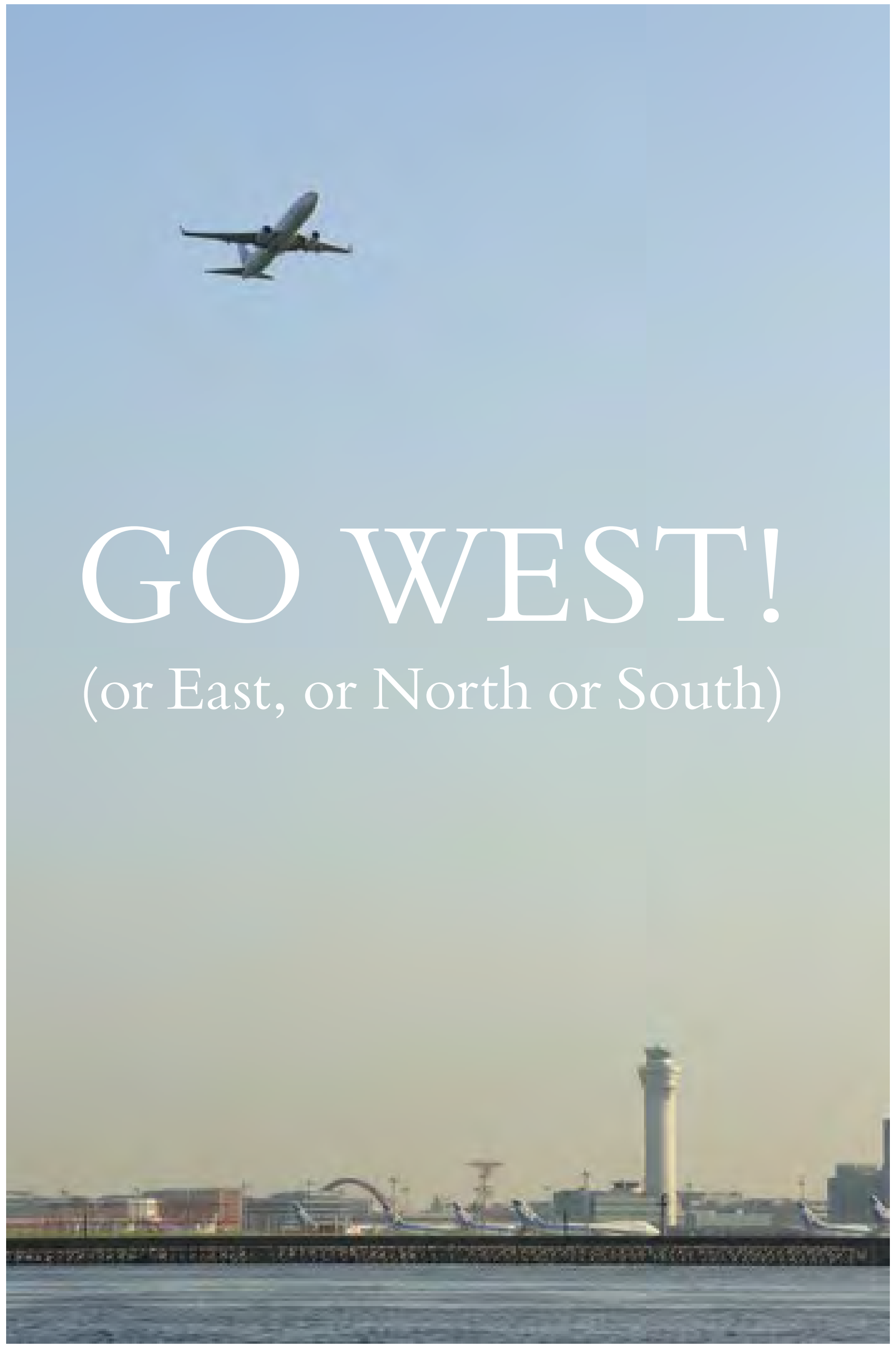
Once those barrels and barrels of Iranian light and heavy hit the markets then the revenues that Iran will begin to reap are not going to be sat around idle. Iran needs agriculture, electricity, transport and construction expertise as its economy opens up.

If there is a new market opening that everyone will be clamouring for in 2016 it will be Iran but for now, significant obstacles remain.

What next?

International trade is not for everyone. Expansion abroad brings risks as well as opportunities and having the expertise of a currency specialist like World First on your side is vital. We take pride in helping you find the best solution for you – there's nothing 'off-the-peg' about either our approach or our assistance. Whatever your business and wherever your strategy takes you, we can help.

While we are unable to deal with Iran as yet, for help and assistance in dealing with the countries listed above or anywhere else for that matter, please contact us.



It's been hard to escape the fact that sterling has taken a hammering through the first couple of months of 2016.

Some are blaming the uncertainty caused by the UK's referendum on EU membership with others instead focusing on dwindling likelihood of an interest rate hike by the Bank of England in the near future.

Truth be told they are probably equally to blame, along with fears over the Chinese economy and a labour market unable to create meaningful wage increases.

While the falls in the value of the pound have sometimes been front page news, a larger story than the increased cost of two weeks on the Costa Blanca is still largely unreported.

Indeed, while a plate of croquetas and a sherry may be a euro more dear now than last summer, UK companies exporting to the Eurozone may well be cheering on the falling pound.

The government has declared that boosting exports is one of its priorities, with the Chancellor announcing a doubling of support for British exporters to China in last year's Budget and expectations of further trade related help in his 2016 speech. And though small businesses may feel they need even more support to be able to crack international markets, there are things they can do themselves:

1. Take advantage of the opportunities

Less than 20% of UK SMEs are involved in exporting, compared with 33% in the USA and 60% in China. The evidence is that more small businesses could be embracing the opportunities of new market by exporting goods abroad. Think of all the times you've bought products from China, Japan or Taiwan – there's no reason why consumers from those places shouldn't be buying from the UK.

2. Learn more

Perhaps one of the reasons that more SMEs don't trade internationally is that they don't know how to. Learn more about what it takes, get knowledge of the markets you want to trade in, take advice from those that have done it themselves and understand the risks involved. Get any training you need.

3. Choose the right place

Make sure you choose to sell your product where there is a genuine need for it. Is there the potential for growth? Do your research. There are plenty of tools available to help you identify where the demand is.

4. Choose the perfect partner

To ensure a smooth and successful operation, you'll need to team up with distributors or local partners. Not only will they make the operation run smoothly, but they'll also save you money and a lot of stress.

5. Be there long-term

Once you've started, commit to sticking it out. There's nothing worse than finding a good customer only for them to be disappointed when you've gone a year or two later.

And anyway, why would you leave when you've found some good customers; they're not easy to find in the first place.

Exporting can offer a world of opportunity, quite literally. It's also worth remembering that the UK Government is committed to helping UK businesses to export through UKTI – this is an invaluable source of information and support.

And once you're up and running and you need help with your international transfers, you'll know where to come too. World First's currency experts can help, and you'll get our great exchange rates, which could save you money compared to your bank.

"For us, the forward contract has helped us enormously"

Anna Kirby works at Bumfords, a family heating firm, which started out doing local installation work in Barnsley in the late 1960s. Today, the company has continued to grow, and now sells products around the world on international marketplaces, and send the proceeds home using World First.

Anna explains how the company has been stung by exchange rates in the past, but also how they are able to use exchange rates to their advantage.

World First was recommended to us by Amazon. Our German marketplace required us to have a bank account that was registered in Germany, and none of the high street banks could offer this service. In addition, there were no monthly charges with World First and it was simple to set up and operate. We do not currently make any purchases other than in GBP so we need to be able to convert our marketplace proceeds into pounds and pay them into our GBP account.

The way we've managed the exchange rates has definitely helped us to save money. Using forward contracts (agreeing an exchange rate for a payment to be made later on) has saved us money, and we also save day-to-day as the conversion fees are lower than the bank charges.

Currently we have a euro forward contract in place. World First were very proactive and called me to explain how it would work when the rates were in our favour in September (approx. 1.34). We now have a six month forward contract in place. Currently, every time we have money deposited from our marketplaces we get a call from our account manager asking if we would like to draw down from the contract.

However, it's fair to say that we have, in the past, been stung by the exchange rates. When we first started using World First, the euro exchange rates were very favourable to us – as low as 1.25 – and we built up a considerable balance. At that time, we did not need the cash in our GBP account so we let it build up in our euro account. Unfortunately, the exchange rate started to move against us and instead of transferring the cash out and losing a little bit we left it and left it hoping the rate would improve. When it didn't, we were in a position where we did need the cash and were forced to convert it a much lower rate for us.

> "The way we've managed the exchange rates has definitely helped us to save money. Using forward contracts (agreeing an exchange rate for a payment to be made later on) has saved us money, and we also save day-to-day as the conversion fees are lower than the bank charges."

This was a significant lesson learnt for us. Along the way we started to use rate alerts to let us know if rates increased or decreased significantly and then we also started to put into place firm orders (transferring the funds automatically as soon as a specified rate is hit) to take advantage of any movements in exchange rates. This meant we were able to transfer our money at the best time for us even when I was on holiday!

I would definitely encourage other small businesses like ours to explore whether they could make more of their FX dealings, and whether they're actually losing out because of the rates. For us, the forward contract has helped us enormously with pricing. Otherwise the exchange rate could be very volatile and it was difficult to predict what the rate would be when we came to convert the funds.

And on World First specifically, our account manager has been very friendly and helpful and has explained the jargon in simple terms. Our online account is very simple to understand and use.

The ups and downs of the UK's **EU referendum**

With the UK referendum on its EU membership little less than 4 months away, currency markets have already started to react in the only way they know how. Matt James finds out how UK SMEs are dealing with the 'currency confusion'.

There can be few more photographed men so far this year than David Cameron who may well have been following a tried and trusted Inter-railing route to have covered so many European seats of power in a way that is both time efficient and economical. But it is worth remembering that this is just the preamble. Now we have a polling date, the respective campaigns will kick-off in earnest and, given the 'history' between markets and uncertainty, one likely side-effect is 'currency confusion'.

The question is how this affects the UK's 300,000 and more SME importers and exporters. Our survey of over 1,000 senior decision makers at UK-based SMEs making cross-border payments found that despite 75% fearing that currency volatility from the EU referendum will impact their business, almost half (47%) are currently failing to take any notice of foreign exchange markets and over a third (35%) believe that having a currency strategy is not important.

Despite that, 45% admitted that they have been caught out by a sudden movement in exchange rates and 26% have been severely impacted by market volatility.

The findings also suggested that some just aren't aware of how exchange rate movements could impact their business with 43% admitting they did not fully understand how fluctuations in exchange rates could make a difference and half (51%) saying that the currency markets 'scare' them. Despite this, 75% recognised that having a proper currency strategy could improve profitability, and this suggests that for many SMEs, currency confusion and a failure to effectively manage their FX exposure is impacting the bottom line.

Given that SMEs are the engine-room of the UK economy and key to our international trade, we have always believed that more needs to be done to make sure they are adequately protected from currency swings caused by events such as the EU referendum.

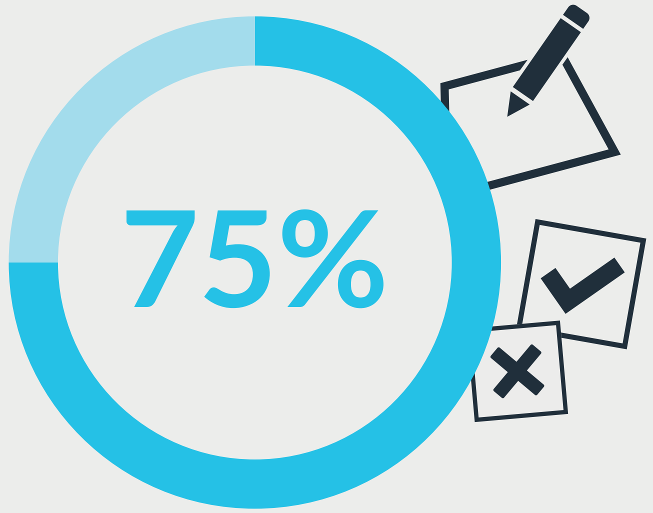
Although the referendum will take place on June 23rd, SMEs should take the initiative now to help mitigate against the risks of currency volatility that we'll likely see in the run up to voting day.

We only have to look at the precedent set by the Scottish referendum – which saw sterling lose around 6.5% against the US dollar in the two months before the vote – and the poor performance of the pound already this year to realise how great a threat this could be to the mini-multinationals who don't have the balance sheet strength to absorb such major shocks.

This situation is all the more concerning given the apparent widespread lack of appreciation on how such rate movements impact the bottom line as our survey shows.

METHODOLOGY
1,006 senior decision makers at UK SMEs with foreign exchange needs were interviewed between 30th November and 3rd December 2015 by Censuswide

SME **EU Referendum fear**



Of SMEs trading abroad are worried about the impact of **currency volatility** on their business, due to vote

SME **currency confusion**

47%	45%	35%	75%

Don't take notice of the currency markets	Admit they have been **caught out** by sudden rate movements	Believe having a currency strategy is **not important**	Think currency strategy could **improve profitability**

Currency Essentials

The foreign exchange market is the largest and fastest moving market in the world. It's open for business 24 hours a day, five days a week and trying to navigate it can keep the most fearsome of Finance Directors awake at night. This year's sterling performance against the euro and US dollar has been a particularly vivid nightmare.

We believe that any business exposed to currency markets should actively manage its risk – market movements can hit your margins or increase costs without warning. Indeed, a recent survey suggested that 78% of UK internationally trading SMEs recognised that having a proper currency strategy could improve profitability.

Our dealing teams have put together five simple tips can help you plot your way through the foreign exchange markets with confidence.

Know and protect your budget rate

Many SMEs use a budget rate to calculate costs on goods bought in other currencies and expected revenues on overseas sales. A budget rate is an essential planning tool as it is a constant used when forecasting. The rate is often set by using prevailing forward rates and should be achievable by entering into a hedging transaction.

Keep up to date

Currency markets can move quickly and suddenly in response to things like political events or significant international economic news. You could try and keep up with it all yourself but signing up to Jeremy Cook's Morning Update is probably a lot easier and quicker.

Be clear on the price of your currency

The 'spread' is the difference between the price the broker pays for your currency and the price at which they then sell it on to you. Don't be afraid to ask your broker to explain the spread, as well as any other fees, so that you know exactly how much your currency is costing you. And a word to the wise; some brokers use 'honeymoon rates' to win business and gradually increase the spread over time.

Make sure you consider your options

Many businesses use a combination of spot contracts, where you accept a given exchange rate 'on the spot', and forward contracts, which allow you to fix a rate for up to three years. Alternatively, the answer could lie in a made-to-measure currency option which could give you the protection of a forward while also allowing you to benefit from the upside if the market moves in your favour. There are pros and cons whichever approach you choose and a good broker will explain everything before you decide.

Go to a currency specialist (hint hint)

Lots of businesses still default to their bank to make international payments when they would be very likely to save money by using a specialist broker instead – money that will directly affect your bottom line too. The point is this; you have options and a good broker will take the time to understand your needs and find the best way forward for you. That's what we do at World First – there's nothing 'off-the-peg' about either our solutions or our approach.

To find out more about how World First could help you manage your currency needs, give one of our friendly specialists a call today on 020 7326 9124 or visit worldfirst.com.