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US ELECTION SPECIAL
WHAT WILL THE PRESIDENTIAL RACE MEAN FOR UK BUSINESSES?
In just a few short weeks, Americans will head to the ballots to elect the 45th POTUS. With the polls so varied and so widely untrusted the result is really anyone’s guess. One thing, however, remains certain—the ongoing clash between the presidential nominees, Clinton and Trump, will remain heated until the bitter end. But what does it all mean for businesses watching on from across the pond?

In this US election special of Global Ambitions, we dive into the business and market implications of the upcoming elections. We ask: which political party is the best for the US economy? Do elections actually move markets? And, how can you insulate your business against volatility? So, whether you’re starting-up a new venture abroad or managing the impact of currency fluctuations on your business, read on to ensure you’re prepared for Obama’s exit from the White House next year.

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WHO’S THE STRONGEST CANDIDATE FOR THE ECONOMY?

In January next year, current US President Barack Obama will hand over the keys to the White House to (more than likely) one of two different candidates: Democrat Hillary Clinton or Republican Donald Trump. Both the Republicans and the Democrats have very different track records on a number of different indicators: from the unemployment rate to real GDP growth and from domestic satisfaction to the strength of the US dollar itself.

We dissect and analyse these trends in the following piece to answer the question: which is the best political party to run the US economy?

Across the past four decades, the US has had seven different presidents (three Democrat, four Republican), has undergone six economic recessions, five wars and hosted four Olympic Games.

All these seismic events take a toll not only on the economy, but also the reputation of the leader of the country at the time. Here we look into which presidents’ reputations are deserved and who has the poorest track record.

The Democrats have a far more successful track record at reducing unemployment, with Obama’s administration most recently cutting the jobless rate by close to three percentage points to below 5%, the lowest level in almost ten years.
US DOLLAR INDEX

The strength of the US dollar is highly contingent on not just domestic, but international economic strength. Furthermore, strength of the dollar is a mixed blessing for domestic business as importers find their cost base falling, while exporters face lower and tougher profit margins. As such, it’s difficult to ascribe a stronger USD a political objective, and therefore which political party are superior to the other when it comes to exchange rates.

GDP GROWTH

One of the most popular and effective methods of measuring economic strength is the growth (or lack thereof) in Gross Domestic Product – effectively the sum of the monetary value of the nation’s consumption, investment, government spending and trade balance. The US has grown at an astonishing rate (over 1000% since 1975), but that growth has often been lumpy, uneven and hindered by recessions, stagflation and misguided policy.

Across the tenure of Republican presidents, the US economy grew by 158.5% an impressive record that beats the Democrats’ 141.1%. However, adjusting for their longer period of time in office (by 4 years), a Democratic president will usually oversee an annual growth of 6.1%, beating the Republican’s 5.8%.

Taking these three indicators into account, it’s clear that the Democratic Party have a stronger track record in managing the economy via cutting the rate of unemployment and stimulating economic growth. The Democrats also tend to oversee a stronger US dollar and with the Federal Reserve still seeing higher, rather than lower, interest rates in the near future that could remain the case if current odds are to be believed and Hillary Clinton becomes the 45th president of the United States.
HOW TO GUARD YOUR BUSINESS AGAINST VOLATILITY

A 2015 Censuswide survey showed 78% of internationally trading SMEs recognised that having a proper currency strategy could improve their firm’s profitability.

As companies continue to look across borders to reach new customer bases, source cheaper raw materials and streamline supply chains, foreign exchange rates are becoming more and more important. Naturally, as this pattern continues, companies rely on budget rates, forecasted profit margins and assumed asset valuations that may in fact change as time goes on.

Recent shocks to the global economy including the UK’s decision to leave the European Union and the Swiss National Bank’s decision to de-peg the Swiss franc from the euro are prompting a surge in currency volatility. In fact, sterling is now 18% lower against USD than it was the day before the EU Referendum vote and 23% lower than one year ago, making it one of the worst performing currencies of 2016.

And, with future risk events including the polarising US presidential election and the eventual invocation of Article 50 from the UK government, currency volatility has been and will continue to be at the forefront of financial directors’ and business owners’ thoughts.

With that in mind, there are a number of ways and methods in which you can help guard your business from the ill-effects of currency volatility and deal with uncertain exchange rates.

Stagger your transfers

Not sure if the current market rate might improve in the near future and not willing to trade your lot today? Simply stagger your trades. If your business is looking to make a significant one-off transaction, break down that trade into two, or even three, separate transfers over an extended period of time. This way, should the rates improve, you’re able to lift the average rate at which your lump sum was traded. Should rates deteriorate, you’ve already covered a large portion of the trade at a better rate, allowing you to avoid exposing your entire transfer to the poorest market rate.

Forward contracts

A forward contract allows you to buy or sell an amount of currency at or before a set time in the future. It allows you to effectively pre-purchase your currency by paying a deposit ahead of time and knowing in advance what rate you’re able to use for future transfers.

The rate for a forward contract may differ from the spot rate as the market calculates a forward rate depending on the difference between the interest rates between the two currencies.

Establish a hedging strategy

If your company raises a proportion of your revenues or pays a proportion of your costs in a foreign currency that is significant to your business, in our opinion, you should have a solid risk management strategy in place. Strategies will vary in size and complexity according to the size and complexity of your business. The strategy should allow you trade both proactively and reactively with a pre-approved set of tools that have already been signed off with your board.

Consider currency 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. You can discuss your hedging objectives with your broker who will be able to talk you through suitable products that could help you achieve those objectives. There are pros and cons whichever approach you choose and a good broker will explain everything before you decide.

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.
Your quick guide to TRANSATLANTIC BUSINESS

The USA is the UK’s single largest trade partner. In fact, the total investment between the two countries exceeds £600 billion and helps to generate more than two million jobs. Given the size of the US market and the shared language and cultural norms, it’s easy to see why more and more UK businesses are beginning to think global and set-up shop on both sides of the pond. So, if you too are looking to take on transatlantic opportunities, here are five tips to bear in mind.

1. LOCATION, LOCATION, LOCATION

With 50 states and around 20,000 different cities and towns to choose from, you’ll certainly be spoiled for choice, but it’s not as easy as raising a finger in the air. In such a diverse nation, you’ll need to consider the best market for your good or service and it’s also worth consulting a guide to see which places are the most competitive. New York City ranks first in the Economist Intelligence Unit’s Hot Spots 2025 guide with Chicago, Washington DC and Los Angeles also topping the charts.

2. DOT YOUR I’S AND MIND YOUR...Z’S

A shared language is one major benefit of setting up a business in America, but just because you can understand your customers and employees doesn’t mean you’re really communicating. Don’t underestimate the value of small talk in American business and how far a 20% tip can get you. In short, make sure you research the cultural intricacies in the area you intend to do business and don’t forget to drop your u’s and insert your z’s.
3. MAKE YOUR TAXES LESS TAXING

Taxes, everyone’s favourite topic. In America you’ll not only be dealing with a national tax regime, but also state and local laws. Certain states offer breaks which may be beneficial to your business and some have much clearer tax structures than others. The Tax Foundation recently released their ranking of US states by tax climate index. Wyoming and South Dakota top this list with the best tax environments, with New York and New Jersey bringing up the rear.

4. KNOW YOUR MARKET

Did you know Florida’s largest export is aircrafts, Idaho’s is memory chips and Maine’s is lobster? It’s worth getting to know the American marketplace and most commonly produced products. Find your niche, where you fit in and how to differentiate yourself from the competition.

5. KEEP AN EYE ON CURRENCIES

Currency fluctuations can have a major impact on your bottom line, especially if you are repatriating funds on a regular basis. Will we see a strong dollar under Trump or even a weak dollar under Clinton? Our Chief Economist shares his predictions in our Ask our Economist section. And, by using a dedicated currency specialist, like World First, you can make international transfers cheaper, faster and easier. You can even take advantage of a forward contract to lock in a rate for up to three years.

There are but a few weeks left until US voters cast their ballots and the latest opinion polls show a tightening of the race that could easily make the result of the election a coin flip. Political risk always makes markets nervous; traders and politicians are not known to trust each other – with good reason both parties would say – and 2016 has been a year of political risk like no other.

But do elections, referendums, squabbles between governments and all that puff and bluster really matter?
One only has to take a look at sterling in the past three years to see that they most definitely do; two referendums (one on Scotland’s membership of the UK and one on the UK’s membership of the EU) and a general election stand testimony to that fact.

The most famous quote that links politics and markets comes from James Carville, a political adviser to President Clinton. Through the latter part of 1993 and most of 1994 the yield on US government debt rose to around 8% - at the time of writing they are currently 1.6% - as investors grew concerned about the level of government spending within the US economy.

James Carville was reported to have said at the time that, ‘I used to think that if there was reincarnation, I wanted to come back as the president or the pope or as a .400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody.’

As currency markets and interest rate markets are intrinsically linked – currency movements are in essence a reaction of expectations of where interest rates will be in the future on a relative basis – we can look at the link from both a correlation and causation stance.

This year’s presidential election has been one for the ages but has been a nightmare for us in markets given the rise of what some have called ‘Vox Populi’ risk: the rise of populist, sometimes single issue political movements.

Markets, much like a business, crave certainty. While the nature of investing is a balance of risk and reward there are few things out there that could ever be classified as a ‘sure thing’ or a ‘dead cert’. This election is at the opposite end of that predictive spectrum—a once in a generation event, with unreliable polling information and consequences that nobody can accurately quantify.

This election is a nightmare for financial markets, and you rarely find optimists in your nightmares. As such, the market has sold off on risk in the lead up to the vote. Emerging market? Get rid of it. High yield? Get rid of it. Not a haven? Get rid of it. There are only a few havens in the world of investing and happily enough for the US, it is one of them.

In fact, regardless of how this election goes we think that governments, globally, are going to become a more important influence of market movements courtesy of the fatigue of central banks. Monetary policy has arguably hit its limits in recent years as developed market economies have slipped close to deflation with interest rates, and in some cases, into negative territory. Quantitative easing spending has secured the banking system but the trickle down to the average business or consumer has been painfully poor.

Demand is weak, as is growth but the policy cupboard is looking rather threadbare and central bankers are increasingly looking to governments to pull their weight.

The policy focus has now shifted to what our new Chancellor, Phillip Hammond, does in his Autumn Statement. In his letter to Governor Carney in response to the August Inflation Report, Hammond said that he’s ‘prepared to take any steps to support the economy’ and we would hope that the refocus of the UK fiscal stance would allow for lower taxes and increased investment.

Fiscal issues are not front and centre within the US election conversation; issues of religion, immigration and health have taken more headlines through the campaigns. To be fair, we do not expect much change in US policies, either fiscal or monetary that will impact global growth under a Clinton administration. Under a Trump Presidency, increased fiscal spending and a lower tax regime may allow for a spillover of growth into the global economy.

He has also made hawkish hints on monetary policy and exhibited a reticence to reappoint Fed Chair Yellen or her Vice Stanley Fischer. Similarly, his desire to allow to open a tax window to corporates looking to repatriate dollars could easily prompt large scale dollar gains as a similar policy did in 2004.

Currency and politics are uneasy bedfellows at the best of times and today’s markets are a few standard deviations away from best. There is, however, no better barometer of political risk out there.
BORED OF BREXIT?
TIRED OF TRUMP?

TAKE YOUR NEW START-UP TO ANY OF THESE THRIVING ECONOMIES

2016 has been a turbulent time for the US and UK political environment. Following the shock decision for the UK to leave the EU, the pound has stumbled and stuttered and many predict the UK economy will slow down in the lead up to the triggering of Article 50.

On the other side of the Atlantic, an embittered election battle is taking centre stage with the prospect of a Donald Trump presidency triggering market volatility.

Such uncertainty does not create the ideal environment for starting a new business so entrepreneurs will be forgiven for looking elsewhere for a home for their new venture. With that in mind, Renny Popoola runs through the best places to start a business according to Forbes and what to consider when you get there.

1) DENMARK

For the second year running, Denmark has topped Forbes league table of best countries to do business. With low corruption, transparent regulatory climate and a strong market economy, Demark ranked highly in all the 11 metrics that Forbes use to determine its ranking. Processes and costs of starting a business are also minimal with it taking only 24 hours to establish a company online.

Denmark is one of the EU’s best performing economies characterised by strong growth, low unemployment and strong GDP per capita. Business owners will also find the necessary infrastructure already in place and with a prosperous and well educated population, finding consumers in Denmark is significantly easier than in many other countries.

As part of the EU, you may find starting a business in Denmark as an ideal gateway to accessing the Nordic or wider European market due to its flexible language requirements and its geographic proximity to Sweden, Norway and Western Europe.
2) NEW ZEALAND

Over the past few decades, New Zealand has transformed, reducing its reliance on agriculture and building up its industries boosting real incomes and GDP. The country boasts an open economy with a high level of economic freedom. Furthermore, post-financial crisis, New Zealand has experienced consistent economic growth.

Setting up a business in New Zealand is relatively straightforward. Sole traders can operate without following any formal or legal processes whereas companies can be registered online in a matter of hours with a very small fee (about NZ$150).

Regulatory hurdles are also minimal and as the government does its best to encourage foreign investment, the taxation system remains business friendly. If you’re looking to set up a business in New Zealand, many opportunities lie in the construction sector especially for designers and engineers. And, with one of the best funded public health sectors in the world, New Zealand is a great starting point if you’re looking to market a healthcare or health technology business abroad.

3) NORWAY

With one of the highest GDP per capita in the world, unemployment under 4% and inflation hovering around the 2% mark, Norway’s economy has remained strong throughout the global financial crisis. Whilst its economy is dominated by the oil and gas sector, which account for 65% of all of the country’s exports, opportunities exist for foreign companies offering quality goods to its high income population.

The business environment is appealing to foreign investors as establishing a business is low cost and excellent infrastructure means running a business can be straightforward. Norway isn’t a member of the EU but as a member of the European Economic Area (EEA), adheres to the same trading practices and enjoys free trade with the rest of the EU.

4) IRELAND

Though the economy struggled during the financial crisis, Ireland has bounced back over the last few years with strong GDP growth in 2015 (5.2%). To do this, the government introduced a number of business friendly measures to encourage inward investment including low corporation tax of only 12.5% and easing the process to starting a business in the country.

Ireland has attracted a number of the big technology firms including Facebook, Google, LinkedIn and Twitter, all of whom have their EMEA headquarters in the capital city. This has fostered a vibrant tech scene and brought in a lot of talent and investment to the region.

If you’re an international focussed business with a ground breaking idea looking to set up in Ireland, Enterprise Ireland offers hands-on support, advice and sometimes even investment to entrepreneurs who have an innovative product and technology. Other schemes like MicroFinance Ireland and Jobplus also offer financial support to start-ups in the country.

5) SWEDEN

Sweden is characterised by one of the highest standards of living aided by a liberal government and a mixed economy of significant welfare support coupled with an open market. Whilst the economy slowed during the financial crisis, Sweden continues to experience modest economic growth and is considered one of the most stable regions to conduct business.

Setting up a business in Sweden is a pretty straightforward process and there are no additional hurdles for companies that are owned by foreign shareholders. Registering a company takes around two weeks and between 1900-2200 SEK depending on if it’s done online or by post.

Running a business in Sweden can be costly though due to the significant tax burdens including 25% VAT. However, the maturity of the market with an established middle class consumer base, solid infrastructure and regulatory transparency means that companies offering high quality products or services will most likely find Sweden good for business.
With the US election nearly upon us and Brexit negotiations looming large, there is so much uncertainty in the global marketplace. Amidst this fast changing backdrop, World First’s Chief Economist, Jeremy Cook, answers the most frequently asked questions from our clients. Read on to find out what you need to know to close out 2016 and prepare your business for the year ahead.

**What effect will the election have on currencies? Who are the winners and losers?**

Assigning currency winners and losers to a political event is an inexact science but the reaction of currency markets will always be sought. As we get closer to the vote, speculators and investors are going to increasingly position themselves around their best guesses; in the meantime we are set for volatility.

There is certainly more chance of FX market volatility in the event of a Trump presidency than a win for Clinton. Similarly, gains for Trump in opinion polls or following the debates will exacerbate volatility.

The performance in currency markets following the perceived victory for Clinton in the first debate is a good precursor. Mexican peso, Canadian dollar, South African rand and other emerging market currencies gained with the yen the main loser on the overnight session. This reinforces our belief of broad yen strength in the event of a Trump win and measured dollar weakness should Clinton emerge victorious.

Trump’s focus on trade allows for a stronger dollar in time however as have his hawkish hints on monetary policy and seeming reticence to reappoint Fed Chair Yellen or her Vice Fischer. Similarly, his desire to allow to open a tax window to corporates looking to repatriate dollars could easily prompt large scale dollar gains as a pre-cursor did in 2004.

**How do you see the pound faring for the rest of the year and beyond?**

Our calls for a deep and pronounced sell-off in the pound on the basis of a vote to leave the EU have proved correct but it is still a shock to see the pound where it is. This is not to say that we have seen the bottom.

The data from the UK economy has yet to show a drastic collapse in growth and the true effects will not be felt for a number of months as the outlook for business investment, consumer credit and inflation become clearer. That is to say nothing of the political machinations between the UK government and Brussels.

Although we have a timeline for a triggering of Article 50 – by the end of Q1 – investors are likely to continue to express their displeasure at a lack of available planning on how the UK goes about accomplishing a Brexit within the 2 year timeframe the Article allows. External factors will obviously have an effect and we believe that a win for Donald Trump in November’s election will lead to USD outperformance against many currencies, the pound included.

Against the euro, the situation is a little more strung out in that there is a plethora of European political risk to take into account with elections in the Netherlands, France and Germany. And, there are always headlines about Eurozone banks to keep investors nervous.
Do you expect the pound to go back to the levels it has been at in the past few years (over 1.40 for GBP/USD and over 1.30 for GBP/EUR)?

Not any time soon is the short answer! I think that there is the opportunity for sterling to recover eventually as investment flows improve and should the negotiations between the EU and the UK allow for easy and open passporting of financial services and access to the Single Market…but I am not holding my breath!

What are the next steps for the UK in leaving the EU?

Initial negotiations between the UK and the EU may begin in the next few weeks although some members of the EU political leadership are still saying that negotiations on trade will not begin until Article 50 is finally triggered. Between now and then investors, businesses and consumers will be hoping that plans are being drawn up to allow the UK to make the most of the 24 months that Article 50 gives them to negotiate.

What are the key events which could impact rates—both monthly and larger events like the US election and rate cuts/increases?

How long have you got? While Q3 was an uncertain yet overall quiet period the coming quarters are not likely to be as benign; November will see the Italian constitutional referendum, the US elections and possibly another Bank of England interest rate cut with another Federal Reserve hike increasingly likely in December. Within that there is the typical monthly data to be mindful of such as inflation and confidence numbers in the UK while pay growth is crucial for the centre of gravity of Federal Reserve interest rate decisions.

Everybody needs to realise that absolutely nothing is set in stone and that makes these markets, and expectations around these markets, incredibly dangerous.

“There is certainly more chance of FX market volatility in the event of a Trump presidency than a win for Clinton.

Similarly, gains for Trump in opinion polls or following the debates will exacerbate volatility.”

When are we expecting UK businesses to pass the additional cost of importing onto their customers?

Within the next couple of months. We expect import-reliant business in low margin areas such as retail, travel, food and energy to pass on higher costs very quickly—at least by the end of the year. This Christmas could very well be an expensive one.

What can I do to protect myself?

Businesses need to fight uncertainty with knowledge—knowledge of their businesses’ needs for foreign currency, knowledge of the risks, both internal and external, that face their business and the knowledge of where to go to obtain the protection that they may need. Never has it been more important to take care of these risks.
Don't trust the banks' call-centres to handle your currency transfers. For help finding a better currency solution for your business, speak to one of our experts.

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