what next? Where does the Brexit leave us?

Plummeting pound prompts UK SMEs to “fix-it”

6 things to watch over the next 6 months
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Connected for business

Japanese consumers are some of the most connected in the world, making Japan one of the most attractive markets on the planet for global e-commerce merchants. Edd Hardy takes a look at the size of the prize.

Japan is an exporting powerhouse, exporting over $75 billion to countries across the world1. These exports don’t just end up with its nearest neighbours, like China, South Korea and Taiwan, but travel right across the globe. 35% of these exports reach the shores of North America and Europe – showing Japan to be a truly globalised and open economy.

This economic advantage is nothing new. After establishing a reputation as a global player in the second half of the twentieth century, Japan has retained its global influence despite setbacks like the global financial crisis and an acute strengthening on the yen between 2007 and 2011.

A lot of this success is due to Japan’s preference for high-end manufacturing and technology, as is evidenced by the country’s high rate of internet adoption. Japan’s internet use makes it one of the most switched on nations in Asia – outstripping their neighbours in China and Russia.

Such wide use of the internet gives Japan one of the most mature and most developed ecommerce markets globally. 75% of the total Japanese population have bought products online – that’s over 95 million active online customers buying products from apparel and footwear to beauty and personal care. To source this domestic demand, Japan also looks overseas. In 2014, Japan bought $1.8 billion of products online from China and the USA alone.

At World First, we enable online sellers to expand into markets across the globe. We’ve now expanded our coverage and launched Japanese yen (JPY) receiving accounts and, in doing so, we’ll provide access to a new, thriving market for online sellers worldwide.

This will allow international marketplace merchants to sell in Japan and transfer their hard-earned sales revenues from Japanese yen back to their home bank account in local currency. We’ll also do it quickly, cheaply and with a level of customer service that we think you’ll find hard to match. Just ask our current customers!

1Japanese Ministry of Finance, 2015
The land of opportunity: 5 things you need to know about Japan

1. Japan is big exporter, exporting more than USD$600bn every year. According to the CIA’s World Factbook, only China, the US and Germany export more.

2. In Japan, about 85% of the population is connected to the internet - more than nearby Russia and China.

3. About 75% of Japanese consumers have bought something online which equates to an active online market of more than 95 million people.

4. In 2014, Japanese consumers bought more than USD$1.8bn of goods from overseas and 35% of these were from either the US or China.

5. Whilst selling in Japan to Japanese consumers used to be tricky, World First can now provide e-commerce merchants with their own Japanese yen receiving account making it easier, cheaper and faster to bring back revenues earned in Japan.
After the referendum: Where does the Brexit vote leave us?

The UK vote to leave the European Union caused the most significant upset of the British political landscape since the Second World War and has shifted both the economy and the business community into an uncomfortable holding pattern. As pre-vote uncertainty gives way to post-result chaos, Jeremy Cook identifies five areas to keep watch over.

The medium and longer term outlook for businesses, both small and large, is difficult to assess at the moment – we will have to wait until August for that insight to reach us. Our thoughts however are that while the short term landscape for UK business contains significant pitfalls, there will also be opportunities, mainly through investment and funding channels.

Investment

Investment, or the lack thereof, is expected to be the primary pain point of the post-recession landscape. We know all too well that ‘businesses crave certainty’ and in the uncertain post-referendum landscape, companies as diverse as Vodafone, Siemens, Honda and Toyota have all reportedly cancelled investment into the UK. Their reasoning is obvious; it is prudent business practice to invest only when certain you can get the returns you want.

Of course, the fall in the value of the pound has made investing into the UK cheaper. At the middle of July, sterling was about 9% down month-on-month against the euro and 19% down year on year. It was 11% down on the month and 18% down on the year against the dollar. This means that legacy assets such as power stations, shopping centres and airports may be snapped up by those looking for a quick bargain. Amidst the doom and gloom, the UK remains a good place to invest of course; the workforce is well educated, English remains a global language and English law is still considered the most important legal framework.

Funding

Comparisons between the Global Financial Crisis and the UK economy post-Brexit are unhelpful; there are very few people out there who believe with any credibility that any downturn seen from the vote result would be in any way as damaging as the credit crisis. What could easily become an issue could be a similar cessation in corporate borrowing.

Mark Carney’s Bank of England is expected to flex the muscles of its newest counter-cyclical capital buffer and lower the levels of capital banks are forced to hold in their coffers. This should allow banks to increase the volume of loans they’re extending to the private sector as they look to put the capital to work which, in turn, supports the credit markets and small businesses reliant on bank funding.

Increasing the amount of money available for businesses to borrow is all well and good but tantamount to pushing on a string; if the demand for loans simply isn’t there, then all the money in the world is going to do little to increase demand. In times of political and economic uncertainty, appetite for credit among SMEs falls through the floor, and understandably so. Business loans data released over the next three months will be keenly watched for a gauge on this.

We expect the Bank of England to take steps to increase the amount and decrease the cost of credit in the coming months, as soon as the August ‘Super Thursday’ policy meeting on the 7th.

5 TIPS POST-BREXIT

1. Remain specialised but be willing to diversify
2. Protection is more important than ever nowadays given a lack of political and business certainty
3. Inflation is likely to make things more expensive in the coming months, has this been factored into budgets?
4. Employees are likely concerned about business prospects and jobs, reassurance is crucial
5. Work with and speak to experts like the FSB, CBI or UKTI

World First, based on mid-market rate as 21/07/2015, 21/06/2016 and 21/07/2016.
Hedge funds and asset managers are notoriously skilled at standing firm against the highest levels of market volatility and still remaining in profit. With volatility the market watchword following the UK’s EU referendum vote, Edd Hardy asks: what’s the secret to weathering these storms?

Just think for a moment about the causes of market turmoil over the last decade or so: the US subprime debt crisis, the Eurozone debt crisis, Scotland’s Independence Referendum and most recently the UK’s historic decision to leave the European Union. In short, it’s been a bumpy ride. And yet devising a strategy to steer a way through market volatility is exactly what a good asset manager does.

Currency strategy and hedging best practice can take a number of different forms. For example, you might be hedging the risk of an exchange rate move ahead of an upcoming supplier payment or you might be forecasting the future value of one of your investment funds. Either way, the core principles of hedging are often the same.

When hedge funds and asset managers approach exchange rates and foreign currency exposures, risk can take one of two forms: acceptable and unacceptable risk. For the hedge fund to return money to its investors it will make speculative bets on asset prices. These are inherently risky but commonly made on an evidenced and justified basis; therefore acceptable risk. On the other hand, hedge fund profits, once they’re secured, are still subject to adverse FX fluctuations if they’ve been earned in a foreign currency. This is unacceptable risk. While World First doesn’t facilitate speculative trading, we can help with transactional hedging and dealing with your foreign exchange exposure.

To combat unwanted FX risk, hedge funds and asset managers often use a diversified toolbox of products to ensure they secure their returns ahead of time. These tools can include forward contracts, currency options and hedging strategies that can provide the fund with a worst-case rate for a portion of their exposure and also the ability to partially benefit from better exchange rates if the rate moves in their favour. These strategies do still contain an element of risk and a deposit may be required, but these products can also provide your business with an element of security for your future FX exposures.

When you’re looking to manage your currency risk, you have many products to choose from to protect yourself from currency fluctuations, and a lot will depend on your individual situation and your appetite for risk.

The currency markets are highly unpredictable and anyone who is involved in international payments of any kind needs to take exchange rate fluctuations seriously before planning a budget. As we have seen, market moves can make a massive impact on your bottom line. Fortunately, there are ways in which we can help you when it comes to navigating the choppy waters of FX.
In the second edition of our Global Trade Barometer, Brexit takes centre stage. Renny Popoola shines a light on the international trading trends of UK SMEs over the second quarter of 2016 and finds the days that followed the EU referendum particularly fascinating.

Plummeting pound prompts UK SMEs to following Brexit volatility

In the aftermath of the UK’s momentous decision to leave the European Union, sterling fell to 30-year lows against the US dollar as ‘poundemonium’ hit the UK currency. The moves were fast and unexpected and spurred many UK SMEs into a knee-jerk reaction to protect their businesses from extreme volatility in currency markets. The single highest concentration of hedging trades in 2016 took place on Friday 24th June, the day the vote result emerged.

However, the reaction of SMEs to lock-in rates and hedge their currency exposures in the immediate aftermath of the referendum result contrasts sharply with their behaviour in the preceding three months. SMEs’ use of hedging products – chiefly forward contracts and currency options – declined throughout Q2, falling 54% in the week before the referendum compared to their activity at the start of February, just before David Cameron announced the date of the EU referendum.

According to World First Chief Economist Jeremy Cook, we should expect volatility to continue: “Friday 24th June will go down in history as one of the worst days in sterling’s history, following huge fluctuations as Brexiteers eventually won the day. It may also prove to be a pivotal day for the UK’s importers and exporters, with the latter rubbing their hands with glee whilst many of the former would have been left with their head in their hands. Now more than ever, businesses need a currency strategy to help them mitigate the risks to their business of future volatility, as we believe that volatility, uncertainty and fear is here to stay.”

A significant portion (46%) of SMEs disagreed with the statement that the outcome of the EU referendum vote had been positive for their business’ future prospects, whilst only 29% agreed (a further 25% said that they still didn’t know). Perhaps having been negatively impacted by a movement in rates, there has been a 7 percentage point increase (Q1 7% v Q2 14%) in the number of SMEs saying that they are not confident in their business’ ability to manage currency risks.

Cook concludes; “It is easy to get swept up in all the apparent doom and gloom as the UK wrestles with its political and economic future, but this is an opportunity for some businesses to flourish. Exporters have seen their price competitiveness improve in light of the recent fall of the pound and a cheaper sterling could allow for an investment boost.”

According to World First’s latest Global Trade Barometer also reveals the impact of currency volatility on UK SMEs’ investment decisions with one in four (24%) stating it had negatively impacted decisions to support development and growth in Q2 – a 9 percentage point increase on Q1 (15%).

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In addition, 46% said that they were worried about on-going currency volatility and the impact it could have on their business, a 15 percentage point increase from Q1 (31%). 77% also think sterling will be volatile in Q3 – a 22 percentage point increase compared to their views last quarter.

The euro remained UK SMEs’ currency of choice this quarter, however the proportion of currency trades denominated in euros fell sharply, from 49% to just 34% in Q2 as the USD came back into favour. Despite the immediate uncertainty, UK SMEs continue to trade internationally and explore new export markets with Norway and Canada seeing 25% and 20% increases in payments quarter on quarter respectively.
What a difference a referendum makes! Since the UK voted to leave the European Union, sterling has had a pretty difficult time of it. If we compare exchange rates from the just middle of June 2016 with the middle of July 2016 then we see just how much sterling has been hit by the Brexit brouhaha. Over this time it has fallen 9% against the euro, 11% against the US dollar and 8% against the Swiss franc. The year on year picture is more stark still; down 19%, 18% and 14% respectively.1

A simple solution
A basic forward contract is a classic currency product 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. It is similar to a fixing a rate on a mortgage in that it just means that you know what rate you are getting for a certain period of time so that you can plan ahead and not have to worry about constantly watching the rates in the market.

It’s important to say that 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 the rate you booked at does not change though we may ask for additional deposit to secure your contract. This is only a deposit.

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. For example, if you take an order for €100,000 you’ll know exactly how much that will be in sterling well in advance.

Our recent survey* found that 78% of UK SMEs recognised that having a proper currency strategy could improve profitability. If you are in that 78% and wish to talk to us about your currency exposure or book a forward contract, get in touch with the World First team.

As always, there are two sides to every exchange rate story. Whilst many of us will simply look at those numbers and think our holiday to Spain has just become nearly 17% more expensive or that we’ll have 16% less to spend when shopping in New York this Christmas, UK exporters will see it quite differently. In effect, their goods just become a lot cheaper for their overseas customers. Expats earning abroad and repatriating funds to a UK bank account are also winners for the time being.

Whichever side of the equation you are on, you may think that now is either a good time to lock in some gains if the rates have moved in your favour or choose to protect yourself from further losses if rates have moved against you.

Whatever your motivation, forward contracts can be a good way to navigate through currency markets during times of high volatility.

“Forward contracts can be a good way to navigate through currency markets during times of high volatility”

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

*1,006 senior decision makers at UK SMEs with foreign exchange needs were interviewed between 30th November and 3rd December 2015 by Censuswide.
5 tips for doing business in South Korea

With a domestic population of over 50 million, the fourth largest economy in Asia and the 11th in the world, South Korea presents a growing opportunity for UK exporters. Renny Popoola outlines what it takes to meet the challenge of exporting to the region.

If you thought South Korea was one of Asia’s best kept secrets, you’ll be disappointed to learn that the secret is out; between 2010 and 2014 UK exports to South Korea rose by almost 50%.

The biggest driver of this change has been the EU-South Korea Free Trade Agreement, implemented in July 2011. As part of this agreement, tariffs on most goods imported to Korea from the UK are no longer imposed.

Though no one knows how the UK’s decision to leave the European Union will impact trade agreements like the one in place with South Korea, the region remains an attractive destination for UK businesses and investors.

Here, we offer 5 tips on beginning your export journey to South Korea.
1. **Do your research**

It goes without saying that SMEs should do their homework before entering any new market. For South Korea, it is particularly important to understand the entry barriers and requirements as well as doing background checks on any local partners or customers.

The search engine Naver is South Korea’s equivalent of Google and a useful starting point for finding out local information including business records, history and current operations of any potential business partners. It’s also a good place to start investigating your competition.

2. **Find an agent**

Once you’ve done your research and decided there is an opportunity for your product or service, it is best to find a local agent to handle distribution.

Whilst it is possible to set up your own business or representative office in the country, the costs and resource needed for this are high and can be prohibitive. With an effective agent, you are likely to get access to readymade networks as well as benefitting from the local knowledge and experience.

UKTI have a number of local teams and advisors who can guide you in choosing an experienced agent that suit your business. They also have a very helpful free guide too.

3. **Respect the culture**

Basic appreciation of Korean history, heritage and culture will get you a long way when doing business in the region. **Etiquette and respect are particularly important when building business relationships** and understanding local taboos will avoid any awkward situations.

For example, the number 4 is believed to bring bad luck and you would do well to avoid holding meetings on the 4th of any month or selling goods in groups of fours or renting an office on the 4th floor. On the other hand, 7 is believed to bring good luck and fortune so it may be a good idea to brand your product accordingly.

4. **Be prepared for hierarchy**

As a culture that places emphasis on respect, be prepared to follow certain hierarchical guidelines and procedures when working with Korean partners or selling to Korean customers. **Internal operations within any companies you work with need to be respected and processes are held in high regard.**

Many of the larger Korean founded businesses still operate as family businesses with founder’s family continuing to exert a great deal of direct executive authority over business operations. If you’re dealing with a chaebol (a large family-owned business conglomerate in Korea) then patience will be necessary to achieve your end goals.

5. **Find your niche**

South Korea’s phenomenal growth has led to a number of British companies exporting to the region including well-known brands like Burberry, Standard Chartered, Jaguar Land Rover, and BA all have a significant presence in the region.

Nevertheless, opportunities remain for British SMEs and UKTI has identified a number of strategic priority sectors including aerospace, creative industries and ICT, automotive, consumer products, fashion, food and drink, education, energy, environment, financial and legal services, life sciences and sports infrastructure.

Finding where your product fits in the market and assessing demand will be key in making your business a success in South Korea.
Currency Affairs: 6 things to watch over the next 6 months

1. The aftermath of Brexit

David Cameron told the world that the vote to leave the European Union would ‘set a bomb off’ under the British economy. We are unable to tell just how explosive the leave vote has been until August, when data from the UK economy taken in a post Brexit landscape are released. We are of the view that it will be a drastic curtailment of investment and infrastructure spending that will have the largest impact on growth in the short term, with a pick up in unemployment in EU facing industries such as financial services also weighing. A dip in employment will naturally lead to a drop off in consumer spending as well but it will take a few months for the true cost of Brexit to be known.

Mark Carney has already warned that material damage has been done to the UK economy by the vote to leave and we expect to see the Bank of England cut interest rates to 0% and increase their asset purchases as part of the quantitative easing program at their August meeting. We do not believe that interest rates will go negative in the UK.

The reaction picture is more interesting outside of the UK. We think that interest rates rises in the US have been delayed by a minimum of 6 months, and more likely by 9-12 months as a result of the vote given the Fed’s recalcitrance to a strong USD. While GBPUSD is at multi-year lows, USDCNY is at multi-year highs as investors flood to safe haven assets. Likewise, we are likely to see the European Central Bank commit to more asset purchases in a bid to weaken the euro in the aftermath of its run higher versus the pound.

2. What will Central Banks do?

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The global political and economic landscapes have been thrown into a new dimension since the UK’s vote to leave the EU. Investor nerves are frayed, central banks are back at their battle stations and currency markets are volatile. With a fascinating six months ahead, Jeremy Cook points out what we should be looking out for.
3. The China question

A myopic market view on Brexit and the European political arena has seen focus lost on the world’s second largest economy. As we came into the year we were nervous about Chinese output amid a strengthening yuan and a nervous global economy; Chinese exports still needed to stay cheap so that the transitioning of the economy from manufacturing to services could occur on foundations of solid external demand. That has not happened and news from the Chinese economy has not picked up noticeably since the beginning of the year.

We expect further news from the Chinese corporate sector in the coming month as to the levels of credit and whether further bubble-like conditions are being seen as this will weigh on the likely policy response from the People’s Bank of China.

4. Clinton vs Trump

2016 has been a strange year for politics, nowhere more so than in the United States. Either Hilary Clinton or Donald Trump will win the US Presidential Election this November in one of the most bitter and bruising election cycles ever. Much like in the EU referendum, the consensus forecast of the election is overwhelmingly one-sided; and we know how that ended up.

It is very difficult to foresee a Trump win given his casual relationship with consistent and cogent economic policy. The market effects would be one of wholesale confusion and would likely lead the Federal Reserve into another battle with an overly strong US dollar, bid higher by investors looking for a safe haven. His hostility towards Mexico and its people would be largely reflected in a sell-off in Mexican assets, chiefly the peso, while fears of a trade war with China may cause the People’s Bank of China to intervene in its currency.

5. European political positioning

Although not taking place until next year, we will start seeing the early positioning for both the French and German elections in the coming months. We expect that the Brexit argument and vote has emboldened nationalist/populist/anti-EU parties in both countries. Marine Le Pen’s Front National will go into the vote as favourites while the German Alternative für Deutschland party will be looking to make strong gains as the country deals with the migrant crisis.

We also expect to see calls for additional referenda on European Union membership in the Netherlands, France and Sweden grow louder.

6. Commodity crunch

Oil has had a good 2016, recovering from its lows to add 80% through into summer. Gold has moved higher on risk aversion from the political maelstrom but industrial metals remain under pressure. This tells us nothing good about the global economy; the world does not need higher oil prices at the moment from a demand point of view. If commodities continue to run higher on fears of a further slowdown in global economic output, that outcome could become self-fulfilling.
You don’t have to settle for uncertainty, even in a volatile currency market. Fix your exchange rate with a World First forward contract. Get back in control by speaking to one of our currency experts.

Call 020 7326 9124, or go to worldfirst.com/fixit