World First
SME Global Trade Barometer
Q4 2016
As a tumultuous 2016 drew to an end, UK SMEs were preparing for a busy Christmas season against the backdrop of political uncertainty, market volatility and a continuous shift in public sentiment towards anti-globalisation. Despite concerns that the UK economy would shudder to a standstill last year, growth remained strong. Nonetheless, worries grew about cost-push inflation and rising levels of consumer credit.

In this edition of World First's Global Trade Barometer, we shine a light on the international trading trends of UK SMEs over the last quarter of 2016. By analysing data from a sample of World First’s corporate clients, supported by the findings of an independent survey of 515 decision-makers at UK SMEs, we provide an analysis of the attitudes of the UK’s mini-multinationals during an exceptional and extraordinary period in the economic and political landscape in the UK.

In this edition of the Barometer, we focus on the following:

- International transfers and most traded currencies
- Hedging strategies deployed by SMEs
- Dollar volatility in the lead up to and immediately after one of the most embittered US elections in recent memory
- SMEs tentatively prepare for 2017
- Christmas season sees sharp rise in international trade with average currency transfers of over £48,000
- The number of SMEs making international trades increased significantly with only 28% disclosing that they did not make any foreign currency transfers in the average month, compared to 33% in Q3.
- The number of SMEs making multiple transfers also increased dramatically with 15% of UK SMEs making over five currency transfers per month in the lead up to Christmas and year end.
- SMEs also made more big ticket transfers with 12% revealing they made currency transfers of over £100,000.
- Research conducted for World First by YouGov shows that the average UK SME made foreign currency transfers of £48,000 in a typical month between October and December. This represents a 26% jump from Q3 where SMEs made an average monthly transfer of £38,000.

Approximately how many foreign currency transfers in total would you say your business makes in an average month?
UK SMEs slow trade with EU as weak pound begins to hurt

Our research shows that UK SMEs trading euros has slowed with only 30% listing it as the most common currency traded in the last three months, compared to 37% in Q3. This is a sharp decline from Q1 of 2016 when 49% of SMEs listed euros as their most traded currency. Similarly, World First data shows payments reaching the European Union fell a further 1.5% in Q4 from Q3.

There was also further decline in dollar trading with 27% of SMEs listing it as the most traded currency compared to 28% in Q2. This is some way from the levels recorded during Q1 2016 when the dollar hovered at just above 36%. Again, our internal data corresponds with this trend showing payments to the US have declined slightly by 0.12%.

As SMEs slowed trading with the EU, our data shows that this was counteracted by SMEs increasing activity in other markets. Emerging markets benefitted the most with payments to Mexico rising by over 56%, despite fears over Mexico’s economy following the election of Donald Trump as president.

Other markets that saw a significant increase in payments include Turkey (34%), Ukraine (27%) and the UAE (26%).

On the other hand, some traditionally popular destinations like China and Hong Kong experienced a slowdown over the quarter declining by 7.74% and 7.17% respectively. In particular, our data saw a shift away from developing European economies with over 30% decline in payments to the Czech Republic and Croatia.

What does the expert say?

Jeremy Cook, Chief Economist at World First: “Despite the predictions of doom and gloom following the EU referendum, UK SMEs remain buoyant with the average currency transfer in Q4 jumping by £10,000 compared to Q3. Moreover, a greater number of SMEs are adopting a global outlook venturing further beyond our isles for suppliers and customers.

“The breadth of countries that UK SMEs trade with show that even though we are seeing an anti-globalisation rhetoric sweep across the West, businesses are embracing the opportunities that trading internationally brings. From Portugal to Peru, UK SMEs are increasingly buying, selling and working across borders.”
The US election in November was undoubtedly the biggest macroeconomic event of Q4 in 2016. UK SMEs, having learnt from the fallout of the EU Referendum in June, reacted to Donald Trump’s victory by purchasing hedging products for the dollar to manage the risk of currency volatility on their business.

**USD hedging was most popular in the week ahead of the US election**

![Graph showing USD Index and number of hedging contracts purchased](image)

**What does the expert say?**

**Jeremy Cook, Chief Economist at World First:** “Heading into the US election, as was the case with the EU referendum before it, markets believed there would be an easy victory for the moderate option. And, as was the case with the referendum, the markets and media were both wrong.

“This time however, it appears SMEs were savvier and more cautious of being exposed to a market fallout akin to what we saw in June. As such, the popularity of hedging products (most notably forward contracts) buying the US dollar soared in the week ahead of the November 8th election.

“This hedging strategy will have proved successful for those buying dollars forward, protecting their firm from having to buy US currency at a more expensive rate at a later date on the spot market.”
Post-referendum rates reality continues to bite

SMEs continue to feel the impact of a falling sterling as hedged positions run out.

Nearly half of all SMEs (45%) admitted to being worried about currency volatility, compared to 31% at the beginning of 2016.

38% admitted to feeling the negative impact of exchange rate movements in Q4, up from 28% in Q3.

Almost a third of businesses have had investment decisions impacted by currency volatility compared to 23% in Q3.

To what extent do you agree or disagree with the following statements?

- My business has felt the negative impact of exchange rate movements in the last quarter (i.e. October to December 2016)
  - Strongly agree: 15%
  - Tend to agree: 23%
  - Tend to disagree: 26%
  - Strongly disagree: 23%
  - Don’t know: 13%

- Currency volatility in the last quarter (i.e. October to December 2016) has impacted my business’ investment decisions to support development and growth
  - Strongly agree: 10%
  - Tend to agree: 20%
  - Tend to disagree: 26%
  - Strongly disagree: 30%
  - Don’t know: 15%

- I am worried about currency volatility and the impact it could have on my business
  - Strongly agree: 15%
  - Tend to agree: 30%
  - Tend to disagree: 26%
  - Strongly disagree: 19%
  - Don’t know: 10%

- Having an effective currency strategy is important to the success of my business
  - Strongly agree: 12%
  - Tend to agree: 29%
  - Tend to disagree: 23%
  - Strongly disagree: 21%
  - Don’t know: 15%

- The outcome of the EU referendum vote has been positive for my business’ future prospects
  - Strongly agree: 11%
  - Tend to agree: 22%
  - Tend to disagree: 25%
  - Strongly disagree: 23%
  - Don’t know: 19%

UK SMEs vulnerability to grow

1. As pre-referendum hedges expired, over 75% of UK SMEs were exposed to the weaker pound as of the 1st of January.
2. A weaker pound will pinch importers but could help the profitability of exporting SMEs.

Decay of hedging contracts: fewer than 25% of SMEs are now hedged

Following the EU referendum, the value of the pound on a trade-weighted basis fell to its lowest level in over a century and a half. SMEs that chose to remain unhedged will have felt the immediate effects of this foreign exchange volatility and will have seen either import costs rise sharply, export markets become much more fruitful – or both.

Those companies that did hedge their currency risk, via either forward contracts, options contracts or a combination of the two, will have protected their business from sterling’s weakness for a fixed period of time after the EU referendum. However, as time passes, this market protection expires meaning more and more SMEs are now becoming exposed to the weaker pound.

Over the course of Q4, the proportion of FX hedges that retained pre-Brexit exchange rates fell from 44.5% to 21.2%, meaning many firms will be starting to feel the pain of the weaker pound. This feeds directly into import price-led inflation which reached 16.9% year-on-year in December.
Conclusion

2016 came with its fair share of shocks right up until the end, but for many SMEs the effects of these are just beginning to take hold. Many SMEs who held hedge positions prior to the EU Referendum in June will be exposed to the weaker pound as contracts start to expire which could push up costs for importers.

The kind of currency swings we saw in 2016 can have a profound impact on margins and with nearly a third of SMEs having to rethink investment decisions because of currency volatility, it is no surprise that the popularity of hedging products (most notably forward contracts) soared ahead of the US election on November 8th.

Nonetheless, UK SMEs remain resilient even in these uncertain times and continue to conduct business internationally. Average currency transfers jumped by 26% in the last quarter of 2016 with significant rises in payments to New Zealand, Mexico, Finland and beyond, suggesting more SMEs are starting to think global in order to grow their business.

However, the political shocks are not likely to be over yet and with 2017 bringing elections in the Netherlands, France and Germany (three of biggest economies within the EU) markets are understandably wary of what lies in store for the euro. In the face of such uncertainty over the next year, one thing remains clear for UK SMEs trading internationally, and in particularly across Europe: volatility isn’t over just yet.

Research methodology

All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 515 senior decision makers in small/medium British businesses. Fieldwork was undertaken between the 23rd and 27th of January 2017. The survey was carried out online. The figures have been weighted and are representative of all British business sizes.

World First data on client contracts was collated between 1st October 2016 and 31st December 2016 and refers to UK corporate desk clients only.

Respondent breakdown by average transfer amount

Notes

**Forward contract**

A forward contract is a contract to exchange a specific amount of one currency for another on a future date, at a predetermined rate. A deposit is normally required for forward contracts.

**Hedging**

To hedge or hedging is to manage the risk of future currency movements.

**FX**

In this report, “FX”, ‘foreign exchange’ and ‘foreign currency transfers’ refer to the buying/selling of international money (including the payment of international money).
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World First is market-leading, award-winning, rapidly-growing international FinTech business. Expert in international currencies and money transfer, World First combines specialist knowledge of foreign exchange markets with technological innovation to help individuals and businesses manage cross border currency payments quickly, securely and transparently. A specialist alternative to traditional banks’ generalist approach, World First has successfully exchanged more than £45bn for over 105,000 individuals and businesses since 2004. World First’s corporate and e-commerce desks enable SMEs and online marketplace traders to expand internationally via a specialist and personalised service proposition and bespoke technology. We call these businesses ‘mini-multinationals’.

World First employs c.650 people across six international offices in London, Amsterdam, Sydney, Austin-TX, Singapore and Hong Kong with plans for further expansion into new countries. World First has strategic partnerships with over 20 businesses including Virgin Money, Harrods Bank and News International. World First has licences to service clients in over 45 countries.

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