GLOBAL AMBITIONS

International business for mini-multinationals

A political timeline from **Article 50 to EU exit**

The impact of Brexit on your purchasing strategy and 8 tips to help you navigate the risks

Industry divided: the weaker pound hurts some more than others

Planning for Brexit

ISSUE 5 | SPRING 2017

WorldFirst
We're changing money

Take your business to the next level

WELCOME

Nearly a year ago the UK voted to leave the European Union, but the process of actually leaving didn't begin until recently when Theresa May formally triggered Article 50. On March 29th the UK's Ambassador to the EU delivered a letter to EU President Donald Tusk stating that the UK wishes to withdraw its membership. The stopwatch on the two-year window for negotiations is now ticking. This means, short of an extension being granted, by 30th March 2019, the UK will no longer be a member of the EU.

With a hard deadline to bear in mind we explore the implications of exiting the EU for small businesses, be they legal, economic, logistical or otherwise. Read on to discover which industries are being hit hardest by the weakened pound, what the application of WTO rules on UK exports could look like and a roadmap of what to expect over the next two years. What really are trade agreements? Could we be facing a potential banking crisis? And what steps should you be taking now to get ahead of Brexit? Find out this and so much more in our spring Global Ambitions magazine.

It's worth pointing out that the views expressed in Global Ambitions are those of the individual authors, and not those of World First.

What's inside...

What World Trade Organization rules would mean for the UK

The clock's ticking on the UK's membership of the European Union and if the Government's crack team of negotiators fail to strike a deal with their counterparts in Brussels then the UK will default onto the tariffs and rules as dictated by the World Trade Organization – rules that were last made with the UK in mind back in the 1970s. World First's Corporate Market Analyst has had a look at the regulation and tariff to see who'd be most affected by a resumption of these rules.

Trade with the European Union was, is and still will be a significant portion of the UK economy following the UK's formal departure from the trading bloc. Just under half of all UK exports head to one of the other 26 countries in the European Union and the vast majority of these are tariff- and levy-free, amounting to approximately £225 billion per year. This may not be the case once the UK reduces the membership of the Union from 27 to 26. Different tariff rates will apply to different goods and services and therefore to different sectors and industries within the UK. Here are some that would be hardest hit by tariffs:

British wine: tariff of up to 32%

The wine industry within the UK has boomed over the past few decades and the UK government is forecasting even greater growth. The Great British Food Unit are targeting a further 1000 hectares of planted vineyards to cement the UK's status as a global viticulturist.

Nonetheless, exporting British wine to the European Union will become more difficult under WTO rules. Every £10 bottle of British wine sold to the continent will have a £3.20 tariff slapped on top – seriously damaging the competitiveness of British plonk abroad.

Agriculture & fishing: tariffs of up to 25%

The UK's agricultural industry has some of the closest ties to the European Union. Common Agricultural Policy payments from the EU to the UK's farmers amounts to more than the sum of all agricultural products sold, and this is all set to change after 2019.

Tariffs of up to 22% on strawberries, 20% on fish and seafood and 19% on peas will raise the cost of UK food and drinks sold into the continent. UK agricultural exports totalling €26 billion (over 60% of which reached European markets) will be under threat from these potential levies. And, while this tax on exports won't apply to UK shoppers, an equivalent tariff could be added onto European produce hitting our shores – raising costs for the UK consumer.

Cars: tariffs of up to 10%

In 2016, UK car exports rose to record highs with over 1,250,000 cars sold to over 100 different countries – constituting a mammoth 12% of all UK goods exported. The production of cars in the UK is so highly coveted that many plants are almost entirely devoted to exporting, which makes the sensitivity of the car industry to tariffs particularly high.

A blanket tariff on the export of cars is something that received plenty of attention last year when, in the wake of the referendum vote, UK Prime Minister Theresa May offered behind-closed-door reassurances to Nissan-Renault that they would be compensated for any losses that they suffer as a result of the UK withdrawing from the Single Market. As such, it's possible that any damage inflicted on the UK car industry in the event we default to WTO rules could be somewhat deflected by government action – only time will tell.

Other goods exported, from sea cucumbers to ski boots, could be subject to tariffs should the UK default to WTO laws, but there's what'll likely be a tumultuous few years of negotiations ahead, wherein the UK government will attempt to secure the 'best possible deal' for Brexit. Nonetheless, regardless of the final shape of the deal, there's a distinct possibility that UK business may not be able to export as cheaply, efficiently or effectively as it has been doing under the European Single Market.

Edward Hardy is Corporate Market Analyst at World First
Website: WorldFirst.com
Twitter: @WorldFirstUK

Planning for Brexit

Is your business prepared for Brexit? **Allie Renison**, of the **Institute of Directors** shares a checklist of basic steps for UK businesses to take now in order to help mitigate their exposure.

Scenario planning is particularly difficult given the Prime Minister's stated intent to pursue a bespoke free trade agreement with the EU, with respect to both content and timescales, as well as the lack of clarity about whether both sides are even contemplating a transitional bridging arrangement yet. However, there are some basic steps which companies across many different sectors should be taking now to help assess their Brexit exposure and insulate themselves from it.

For those businesses engaged in the EU goods trade, it is essential to begin exploring what extra paperwork dealing with the EU as a third country would entail.

Planning for a worst case scenario is necessary, therefore exploratory discussions with freight forwarders, customs brokers and other firms who already sell and buy products on WTO/MFN terms (generally and with the EU) to assess the full range of potential cost implications should be part of forward planning. VAT considerations in this regard are extremely important.

Inward and outward processing relief, duty drawback and temporary warehousing are procedures which will become important for those firms selling or importing from the EU.

Businesses already trading with non-EU markets will have an advantage in knowing how to use these kinds of procedures to mitigate any increase in costs or delays.

Unless the UK and EU agree to continue using Intrastat declarations and EU sales list forms for goods trade, these will be replaced with import/export documents.

Familiarise yourselves with these either directly or through the third parties mentioned above (along with indirect tax/duty specialists).

There is a strong incentive for UK-based goods traders who have not yet done so to apply now for "Authorised Economic Operator" (AEO) status under HMRC's ongoing roll-out of the EU's new Union Customs Code (UCC).

Start having talks – informally as a precursor – with existing clients, suppliers, customers etc to assess what is needed from both ends to ensure your trading relationships can carry on as before.

This means reviewing all EU-related components of your existing operations, and ensuring you know where your company fits into any supply chain(s).

Examine the rules and requirements in each EU and/or EEA country to see which framework provides for the most efficient, cost-effective route to setting up operations if you are in a sector that is likely to need regulatory/licensing approval.

Review all your existing workforce to determine who is an EU national and what their potential status might be with respect to residency requirements (post-Brexit).

The Home Office has different definitions depending on wage level and other criteria of who would be allowed to qualify to settle in the UK.

Brexit-proof your existing and/or future contracts.

Pricing mechanisms or anything which might be predicated on unimpeded access of goods/services/capital/people between the UK and EU may need to be revised.

Ensure you are fully compliant with EU legislation (particularly regulations which are directly applicable as opposed to directives) such as the General Data Protection Regulation due to come into effect in May 2018 and all employment laws including recent changes to holiday pay calculation.

It is an unsafe bet to pre-emptively assume the UK government will renege on its existing or upcoming EU legislative commitment as a result of Brexit.

Engage with the IoD and sector-specific trade associations even on the most detailed and business-specific concerns.

The more case studies we and the government have, the better informed our approach to negotiations will be. Linking up trade policy with practical, real-world considerations is essential in formulating negotiating objectives.

Allie Renison is Head of Europe & Trade Policy at the Institute of Directors

Website: IoD.com
Twitter: @AllieRenison

Political timeline from Article 50 to EU exit

The EU referendum was last year and the Dutch and French elections have passed but, as the calendar shows, there is a lot more electoral and political risk coming down the pipe in Europe in the coming few years. As it stands, and without an extension, there is about 22 months until the UK leaves Europe.

So far however there has still been little movement on when the talks will actually begin. Things may pick up once we have a new president in France eager to make their mark. August means everything in Europe is closed. Then we're back into election mode in Germany and a split vote and coalition building could take the time needed for a formation of a German government well past the September election into November. Article 50 couldn't have been triggered at a busier time in European politics.

Jeremy Cook is Chief Economist at World First
Website: WorldFirst.com
Twitter: @World_First

YEAR	MONTH	DAY	EUROPEAN UNION	INDIVIDUAL EUROPEAN NATIONS	UK
2017	MARCH	29	ARTICLE 50 TRIGGERED		ARTICLE 50 TRIGGERED
	APRIL	23		FRENCH ELECTIONS: FIRST ROUND	
		29	EU COUNCIL ON BREXIT GUIDELINES		
	MAY	7		GERMAN REGIONAL ELECTIONS: SCHLESWIG-HOLSTEIN	
		7		FRENCH ELECTIONS: SECOND ROUND	
		14		GERMAN REGIONAL ELECTIONS: NORTH RHINE-WESTPHALIA ELECTIONS	
		25	NATO LEADERS MEETING	NATO LEADERS MEETING	NATO LEADERS MEETING
		26	G7 SUMMIT	G7 SUMMIT	
	JUNE	8			
		11 or 8		FRENCH ELECTIONS: LEGISLATIVE	
		22-23	EUROPEAN COUNCIL		
		TBC	GREEK BAILOUT REVIEW		
	JULY	8	G20 MEETING IN HAMBURG	G20 MEETING IN HAMBURG	G20 MEETING IN HAMBURG
	SEPTEMBER	11		NORWAY GENERAL ELECTIONS	
		16			LIB DEM PARTY CONFERENCE
		24		GERMAN FEDERAL ELECTIONS	
		TBA		POSSIBLE CATALONIA INDEPENDENCE REFERENDUM	
	OCTOBER	TBA			CONSERVATIVE PARTY CONFERENCE
		19-20	EUROPEAN COUNCIL		
		TBC		LUXEMBOURG PARLIAMENTARY ELECTIONS	
	NOVEMBER	TBC		SLOVENIA PRESIDENTIAL ELECTIONS	
	DECEMBER	17	EUROPEAN SOCIAL SUMMIT		
		14-15	EUROPEAN COUNCIL		
		14-19	WTO MINISTERIAL CONFERENCE		
2018		TBA	EUROPEAN PARLIAMENT ELECTIONS	EUROPEAN PARLIAMENT ELECTIONS	EUROPEAN PARLIAMENT ELECTIONS
		TBA		AUSTRIAN PARLIAMENTARY ELECTIONS	
	JANUARY	28		FINLAND PRESIDENTIAL ELECTIONS	
	MARCH	22-23	EUROPEAN COUNCIL		
		END OF Q1	SOFT DEADLINE FOR NEGOTIATIONS		SOFT DEADLINE FOR NEGOTIATIONS
	JUNE	28-29	EUROPEAN COUNCIL		
	SEPTEMBER	9		SWEDISH GENERAL ELECTIONS	
			SOFT DEADLINE FOR NEGOTIATIONS		
			RATIFICATIONS IN PARLIAMENT		RATIFICATIONS IN PARLIAMENT
	OCTOBER		EXPECTED EUROPEAN COUNCIL		
	DECEMBER		EXPECTED EUROPEAN COUNCIL		
2019	SPRING	25/04/19			SNP TARGET FOR SCOTTISH INDEPENDECE REFERENDUM
	MARCH	29	ARTICLE 50 PERIOD ENDS		ARTICLE 50 ENDS

What are trade agreements?

In the wake of the triggering of Article 50, **Jeff Lewis** from import export training experts **Resultz** decodes the specifics of trade agreements. Here's what you need to know…

In light of Brexit, there has been much discussion about new trade agreements for the UK. Now Article 50 has been triggered, this subject is high on the Government's agenda, plus with the General Election now due in June 2017, campaigning on this subject will probably be on each party's agenda.

But what is a trade agreement?

Many people refer to these as free trade agreements. So what is the definition of free trade?

Free trade is a policy in international markets in which governments do not restrict imports or exports. Free trade is exemplified by the European Union, which has established an open market.

Is that the case with other free trade agreements that we are currently hearing about?

For example the EU-South Korea Free Trade Agreement concluded in 2011, states that, "each party shall eliminate its customs duties on originating goods of the other party."

So what does "originating goods" currently mean for the UK and South Korea?

- Firstly, products which are wholly produced (or obtained) in any member state of the EU, comply with the rules of origin. The smallest addition of materials or processing from outside the EU, will disqualify a product from being wholly produced, losing its origin status.
- When a finished product is classified in a 4-figure product classification different from those of all the materials incorporated in that product, it meets the rule of origin. This allows for some components from outside the EU to be used. There are, however, many exceptions to these rules, covering all the different product groups.
- The other rule allows for a percentage of "non originating materials" (from outside the EU) to be included in the manufacture of products in the EU, where the product classification may not change. This allows EU companies to claim EU origin on products, which results in reduced import duties at the destination.

"...whatever is agreed, UK companies need to understand how these rules apply to them, if they want to take advantage of any 'trade agreements' in the future."

Does that sound like free trade? If we go back to the EU, then UK companies have been able to trade "freely" throughout the EU without compliance to these complicated rules.

So surely, the agreement with South Korea is a preferential trade agreement?

If potential trade agreements are continually described as "free", then this I am sure will mislead many UK companies, who may be thinking, if we get a trade agreement with "whoever" then we can sell ALL our products to them, as the vast majority of delegates who attend our import/export training courses, see this as the case.

Have you also noticed that I refer to the rule of origin as the EU? In theory, this will mean in two years all UK manufacturers with components in their products from the EU, will no longer comply with the "wholly produced" rule of origin, as this would mean, from that point, all components would have to come from the UK, to comply with the "wholly produced" rule.

Do UK companies in these situations realise they may not comply with the new trade agreements?

What they will most likely have to do, is to prove compliance to origin rules that are agreed between "whoever" and the UK, as it is not always a given that all products will be included in a trade agreement.

Also, note that our negotiating power is not as strong as it was. If we want to secure a trade agreement, then most of these are reciprocal, so "whoever" we will want deal with will want to ensure that they do not agree to too many trade preferences for products, as this may provide too much competition to their own local manufacturers, from imports.

What UK companies now need to do (if not already being done), is look at our current trade agreements and see how the rules of origin for their products work, as it is more than likely these rules will be the foundation of future trade agreements.

Could this apply to a UK/EU agreement? Possibly, but whatever is agreed, UK companies need to understand how these rules apply to them, if they want to take advantage of any "trade agreements" in the future.

Jeff Lewis is Managing Director of Resultz
Website: Resultz.co.uk

The impact of Brexit on your **purchasing strategy** and 8 tips to help you navigate the risks

You may have considered the risks of Brexit for your business, but how about the opportunities? **Matt Roper** of **Buying Support Agency** shares top tips to mitigate purchasing and supply chain risks while preparing to seize opportunities.

With the UK triggering Article 50, now starts the challenging task of negotiating our exit in a way which delivers the best possible outcome for UK businesses.

I'd like to consider how those with purchasing and supply chain responsibilities in your business should prepare to cut the risks and seize the potential opportunities that reveal themselves through the Brexit process. Let me first consider the potential risks.

Increased market uncertainty and inflationary pressures

The weakening of sterling against the key international currencies will make it more expensive to import raw materials. Oil prices, set in dollars, may rise due to currency movements even if your overseas suppliers are not themselves experiencing an uplift in costs.

The economic and political uncertainty risks dampening corporate and institutional investment within the UK, though a weak pound may encourage foreign investment despite the uncertainty. Lower investment could curb employment levels, thereby cutting domestic consumption and damaging UK economic growth. Should consumer demand and corporate investment fall, suppliers from the UK and overseas may seek price increases to protect their profit margins.

Barriers to travel and movement of goods to and from the EU

A further inflationary threat is the raising of customs duties and greater administrative hurdles imposed on EU goods and services being imported into the UK. Added to this are the delays caused by customs checks. UK buyers need to think about the impact on their business of lengthy delays at UK ports and increased prices.

But with risk comes opportunity. Buyers dealing with EU based suppliers can turn negative into positive by engaging fully with them to both reassure and protect the supply chains. Conversely, even if relationships with EU suppliers sour, buyers may be unaware of some highly innovative and value add supply chains in the rest of the world, including within the UK itself. Positive consequences may well result in switching to non-EU suppliers, but only if buyers can develop the appropriate alternative supply strategies.

Our eight tips to help buyers navigate Brexit...

1. Most importantly, **prepare an action plan** that considers the short, medium term and long term impact of Brexit on your business. Don't put your head in the sand, thinking that Brexit won't impact your business. No-one really knows the consequences of Brexit, and you can't control it, but you can at least plan ahead. You need an action plan to ensure that your supply chains are both flexible and secure;

2. **Audit your supply chains**, looking for risks and opportunities. Classify suppliers by degree of risk to the business, and do some 'what if' scenario planning, involving the whole business;

3. **Consider your own internal business** and the risks caused by supply chain disruption. Make sure that the buyers are working alongside colleagues in other parts of the business so they can discuss risks and options for mitigating those risks. And consider the opportunities too, such as exporting outside of the EU - though moving into new non-EU markets may require changes to product specifications and the adoption of new suppliers. This will all require a lot of time and resource, hence starting the planning now is vital;

4. **Review the contractual arrangements** with EU based suppliers, and consider re-negotiating terms such as contract duration and break clauses;

5. **Prepare for negotiations** should existing suppliers press for price increases as they seek to protect margins. Resist demands for price increases unless the suppliers can provide clear evidence that their demands are genuine. Consider switching suppliers if the impact of cost inflation is too severe;

6. **Start talking openly with EU based suppliers** and where appropriate begin planning joint strategies to mitigate risks (remember that your suppliers will also be concerned about losing your business so will want to work with you). And keep showing your support and appreciation of your EU suppliers, as anti-British sentiment in mainland Europe could increase your risks;

7. Ensure that you have **good quality supply market intelligence** gathering, so you can monitor potential supply risks or opportunities;

8. **Check that your internal finance and ERP systems can be adapted** to reflect changes such as lengthening order to delivery lead times, greater currency fluctuations, customs duties, etc. System changes will need planning and testing in advance otherwise risks will increase. Plus review all purchasing related online or offline documentation such as purchase orders, terms and conditions and delivery notes. Will these need to be amended post-Brexit to comply with any diversion between EU and UK legislation?

Change is the one certainty

In summary, Brexit poses threats and opportunities for UK based purchasers. The one certainty is that big change in the business landscape is happening, for good and bad. It is therefore critical that you start to plan now. But there is no need to panic. By planning now, your business will be in much better shape to not only withstand any shocks but to seize upon the opportunities that will inevitably come from Brexit too.

Matt Roper is CEO & Founder of procurement specialists Buying Support Agency Ltd

Website: BuyingSupport.co.uk
Twitter: @BSA_BuyingGroup

Industry divided: the weaker pound hurts some more than others

Following the EU referendum, the trade-weighted value of the pound fell to its lowest level in 168 years. For businesses and individuals paying bills in foreign currencies – they'll have had to stump up more to cover their outgoings. These businesses could be international wholesalers buying up supplies, manufacturers importing machinery or tourist operators paying for some continental advertising.

To analyse who might be feeling the pinch more than others we've trawled through over twenty years of inflation data from the UK Office for National Statistics (ONS), profiled the data to match the costs facing UK industries and correlated those costs with the value of the pound. The results are telling: the average UK business sees costs rise whenever the value of the pound falls, with utilities and mining firms the hardest hit. Firms that are most insulated from a weaker exchange rate are financial services and the creative industry, followed by education.

Full results:

For every 1% that the pound falls, costs rise by...

Since the EU referendum costs could have increased by...

Utilities 1.60% / 15.51%	**Mining** 1.56% / 15.15%	**Construction** 1.46% / 14.15%
Agriculture 1.40% / 13.55%	**Real Estate** 1.29% / 12.51%	**Manufacturing** 1.22% / 11.81%
Tourism 1.16% / 11.23%	**Average** 1.11% / 10.76%	**Wholesale & Retail Trade** 1.07% / 10.34%
Hotels & Restaurants 1.02% / 9.93%	**Transport** 0.88% / 8.58%	**Public Administration** 0.71% / 6.88%
Education 0.55% / 5.37%	**Creative Industry** 0.53% / 5.15%	**Financial Services** 0.48% / 4.61%

Our data shows the most cost-pressured industries (utilities, mining, construction and agriculture) are all very capital and machinery-intensive, meaning they'll be particularly sensitive to any and all changes in costs. This is reflected in the ONS' inflation data, showing that since records began in 1996, the mining sector has seen factory-gate prices rise by close to 50%, while financial services costs have stayed broadly flat over the same period.

World First's economist Edward Hardy adds, "With the timing of the June snap general election, business costs should be close to the top of the list of concerns for those running for government. Unfortunately, with such a focus on political point-scoring over the European Union debate, immigration and party leadership, we don't foresee business costs being much of a priority for candidates – which could prove costly in the long run."

With the pound still weaker by 10% compared with pre-referendum levels, our data suggests this will have translated to a rise in costs of over 15% for some industries, but only 7% for others, meaning the UK government will have to be very considered in its approach toward the negotiations with the European Union to prevent certain industries coming under further pressure.

Edward Hardy is Corporate Market Analyst at World First
Website: WorldFirst.com
Twitter: @WorldFirstUK

Article 50 and Brexit: **what it means for SMEs**

The UK has had a turbulent year; having voted to leave the EU and seeing much political unrest with the Prime Minister resigning. The process has been anything but straightforward, as a formal exit did not start until Theresa May triggered Article 50. This means that the two-years provided for negotiations has now commenced.

Due to the time it will take to exit the EU, there should not be any short shocks. However, a big fear is that of trade and how companies in the UK will be treated. We see that many SME's will actually hedge out the risk of the uncertain environment. Offices may be set up in the EU, but this will all become clearer as negotiations progress. It is important to understand how the land lies with the euro, which is feeling this strain already.

Uncertainty for the euro

The level of uncertainty within the Euro-zone this year means that predicting the medium term path of the euro with any certainty is an almost impossible task. Many are thus limiting their exposure to euro currency risk and the uncertainty of Brexit is only one small factor. SMEs need to understand the wider geographical landscape when deciding on what may happen and where to limit exposure.

A potential banking crisis

In terms of potential severity, the greatest risk to the value of the euro is the threat of a banking crisis in Europe. The total stock of non-performing loans (NPLs) in Europe currently stands at around €1 trillion, and with the strong links between sovereign debtors and national banking systems, a collapse could cause a sovereign debt crisis in affected countries.

The greatest risk in this regard comes from Italy and Greece, where 16.6% and 46.6% of all debt is categorised as non-performing. The Banca Monte dei Paschi (MPS) in Italy was recently calculated as having a mammoth $29.6 billion in NPLs on their balance sheet, and whilst the Italian government put together a €20 billion rescue package in the final month of 2016, Goldman Sachs have estimated that it will take €38 billion for the bank to adequately recapitalise. If MPS were to collapse, there would be huge ramifications for the value of Italian assets, including the euro. The threat from financial institutions to the euro is not limited here – Greece looks likely to struggle to meet €7.4 billion in debt payments due in July, whilst a number of big banks across Europe have fallen on hard times in recent months.

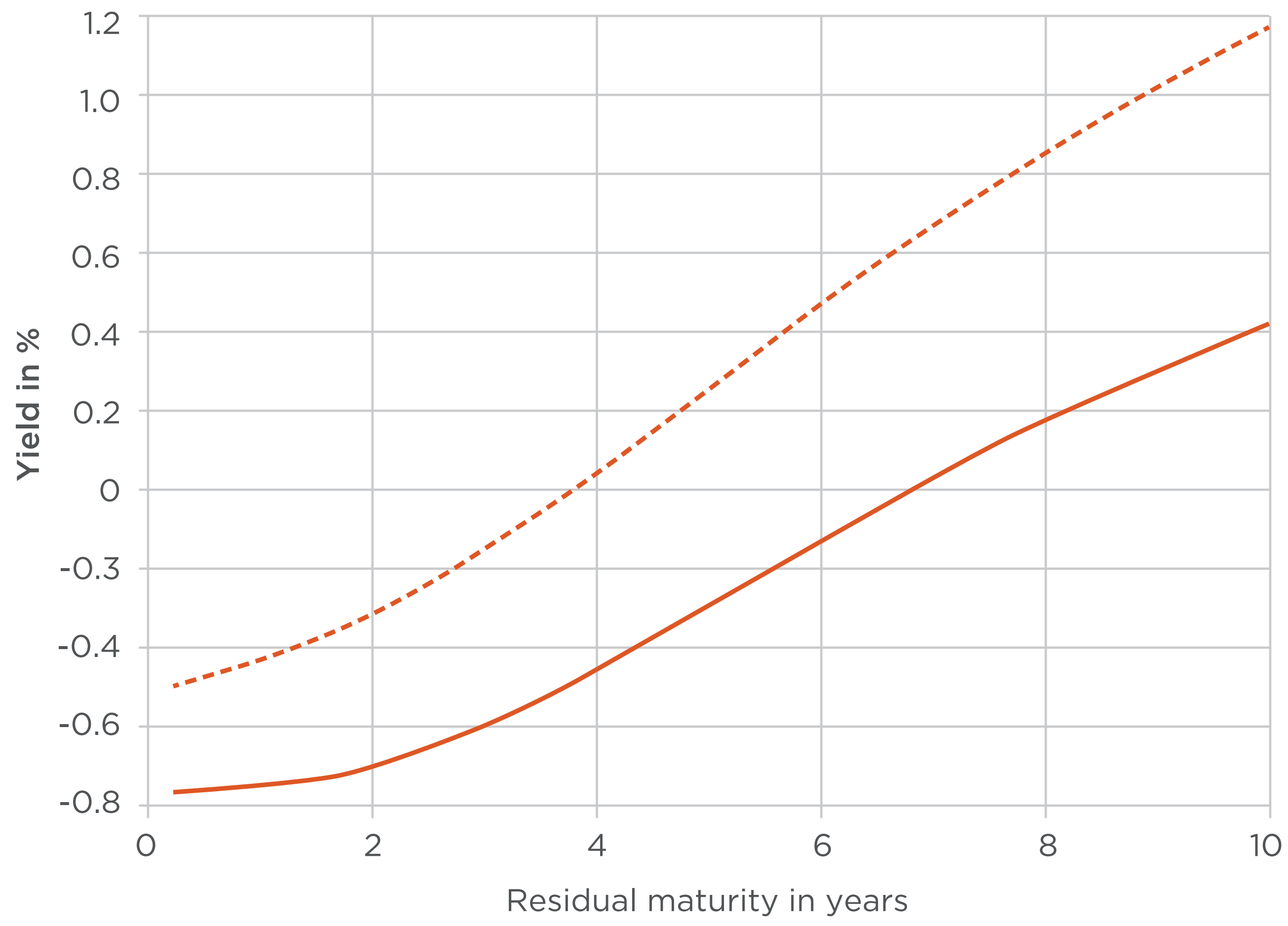
Whilst clearly a banking crisis would be a disaster for the euro, the mere existence of downside risk in the financial system may be enough to put downward pressure on the currency, deterring risk-averse investors from taking up debt or equity positions on the continent.

Political risks

Whilst there remains a substantial amount of political risk currently priced into the value of the euro, the early signs are that the threat of populism on the continent may be overstated. Expectations of a strong performance in Holland from Geert Wilders' far right Party for Freedom (PVV) proved to be baseless, whilst Angela Merkel is expected to comfortably win Germany's general election later this year – a result that would represent stability for the euro. An antagonistic Brexit deal would act to put downward pressure on the euro, although the reality is that such an arrangement is in neither the EUs' nor Britain's interest, and is unlikely to materialise.

"SMEs need to understand the wider geographical landscape when deciding on what may happen and where to limit exposure."

The ECB



Source: European Central Bank - Euro area yeild curves

Euro area yield curve

The continued pursuit of low interest rates as part of an aggressive monetary strategy by the ECB should continue to have a depressing influence on the euro. The base rate currently sits at 0%, and president of the ECB recently indicated that this pursuit of growth-conducive monetary policy will continue until at least the end of this year. The base rate affects the euro through its role in guiding the price of sovereign debt and a range of financial derivatives in Europe, which subsequently are less attractive to investors. The yield curve for the EU area AAA rated bonds is given by the solid line in the diagram above, and whilst showing future inflationary expectations in the medium term, is relatively flat over the next two years – reflecting the uncertainty and low base rate in the region. The ECB also plans to continue its two year quantitative easing programme until the end of this year. The intention of this is to increase confidence, investment and subsequently moderate inflation in the region, which would have a positive effect on the value of the euro. However, as the length of the intended QE programme indicates, the benefits of this are unlikely to be felt before next year at the earliest.

One money one dollar

The strength of the US economy, and anticipated further rate hikes by the FED are likely to see the euro devalue relative to the dollar. One of the biggest fears is the abandonment of the TTIP– the trade deal between Europe and the USA. Such an action would harm demand for European exports, putting downward pressure on the euro. Trump also has outlined plans to introduce a homeland investment act, with the intention of increasing domestic investment in US companies (and subsequently less abroad). If such a bill were to make it through the senate, clearly this would be bad news for Europe.

The FED has recently increased the base rate to 1%, raising the attractiveness of US bonds, whilst anticipated expansionary fiscal policy under Trump is likely to be positive news for US equity markets. Both these factors make a devaluation of the euro relative to the dollar likely, particularly if new investors in US equities raise capital by selling positions they hold in the EU.

The ECB also plans to continue its two year quantitative easing programme until the end of this year. The intention of this is to increase confidence, investment and subsequently moderate inflation in the region, which would have a positive effect on the value of the euro. However, as the length of the intended QE programme indicates, the benefits of this are unlikely to be felt before next year at the earliest.

A tidy hedge

With so much uncertainty in the EU at the moment, Trade Finance Global see the most sensible strategy for UK businesses is to hedge exposure to foreign exchange risk in Europe and see what the outcome of negotiations will be. Having said that, the region still offers a number of positive investment opportunities, and has two multi-billion dollar rescue mechanisms in the event of a crisis. Trade Finance Global offer a number of solutions to companies, assisting with enhancing international trade to or from the EU.

"The strength of the US economy, and anticipated further rate hikes by the FED are likely to see the euro devalue relative to the dollar."

Owen Lock is Writer and
Mark Abrams is Head of Trade
at Trade Finance Global

Website: TradeFinanceGlobal.com
Twitter: @tradefinglobal

Do the currency markets seem like a puzzle?

Let a World First expert
put the pieces in place
for your business

WorldFirst
We're changing money

020 7801 1068

www.worldfirst.com