British Chambers of Commerce

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Ten tips for managing foreign exchange risk

For companies trading internationally, fluctuating exchange rates can be difficult to manage and hard to budget for. If the markets move against you it can erode or even eliminate profits and in a time of tighter margins and increasing raw materials costs it is ever more important to protect yourself from exchange rate risk and make savings wherever possible.

Our partner moneycorp put in place some proactive steps towards managing foreign exchange risk for your business, whilst leaving the market analysis and interpretation to the experts.

1. Plan for risk

Planning is the first step to managing your FX risk. Agreeing on a budgeted exchange rate for the year will guide your transactions. Your budgeted rate should take into account the volume and timing of your expected transactions as well as a realistic assumption of current and future rates. An FX specialist can help to define this rate by analysing past trends. Planning ahead will help protect your business from foreign exchange risk and enable you to benefit from any exchange rate movements which are in your favour. This could make a huge difference to your bottom line.

2. Understand your business objectives

Your business objectives play an important role in defining an FX policy and it is important to know what degree of risk your company is willing to take and how much your FX exposure could impact on your business objectives.

3. Develop a foreign exchange policy and review it regularly

It is important that your policy complies with and works towards overall strategy and objectives. Once agreed, a policy should be reviewed regularly and be flexible enough to reflect the constantly changing nature of the markets.

4. Take information from a variety of sources

Information from varied market sources means a rounded view. Chamber Foreign Exchange Dealers are MSTA (Members of the Society of Technical Analysts) qualified. As experienced market traders they will use their expertise to ensure your company receives the best information and guidance on the markets.

5. Choose a strategy that suits your requirements

With your policy in place it is time to review the FX tools that you can use to manage your exposure. Spot and Forward contracts and market orders can work individually or together to form a tailored foreign exchange strategy. Depending on your budget rate, your requirements and timing, your FX Dealer will be able to suggest a strategy to suit your business.

6. Get the timing right

Timing is key to managing FX risk. To take advantage of positive movements in the markets and to protect against negative fluctuations, you need to be informed at all times. Having access to a personal dealer who will proactively monitor the markets and inform you of relevant movements will enable you to make timely decisions on trade

7. Don't be tempted to gamble of the FX markets

While it's tempting to take a punt on the markets, abandoning your FX policy can increase your risk. Extreme movements in the markets can catch you out. By speaking to your Dealer and adjusting your strategy you can take advantage of positive movements without increasing the risk.

8. Investigate payment service options

Often, a foreign exchange transaction is just half of the task of managing international invoices. The time taken to process payments each month can add up and detract from other business activities. Your business could benefit from an online system which simplifies payments, automatically checks banking details and stores details for future use. Dealing at the click of a mouse rather than having to telephone in.

9. Manage your business relationships

Tracking payments through the authorisation process is important in maintaining good supplier relationships. Look for payment tracking services, so your suppliers can be emailed automatically when a payment has been sent. In challenging times, key supplier relationships can be hugely important to your business.

10. Communicate and review

Reporting clarity enables your business to ensure it's adhering to its foreign exchange policy and making the most of movements in the markets. It's best to choose a system which will have access to sophisticated reporting tools, enabling you to keep track of deals, payments and the progress of your chosen strategy.

If you would like to find out more or discuss specific business foreign exchange requirements:
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