

**Business Cornwall** magazine discovers how Cornish currency broker TorFX can help companies minimise risk and improve profit margins when trading in Europe

# Risk management

## Businesses have been suffering

from a double whammy in recent months. Not only is the recession putting the squeeze on, but the volatile currency markets and euro exchange rate are also adding to the air of uncertainty for any company that trades with the continent.

There are weapons at your disposal, however, that can minimise the element of risk, so you can plan ahead without having to worry about how many euros you will get to the pound.

Traditionally, it has just been the larger institutions that have been able to benefit from such a service, through the high street banks. And while the banks are unlikely to be able to extend this to SMEs, Penzance-based currency broker TorFX can.

Director Jon Beddell explains: "If you are an importer or exporter, or have any dealings in foreign currency, you are likely to be exposed to large currency movements.

"For example, if you are importing product from Europe, say machine parts from Spain, and selling them at fixed price in the UK at £100 per part, your selling price is absolutely known in advance, but your purchasing price might be variable depending on what happens with the exchange rate.

"18 months ago you would have been able to get 1.50 euros to the pound, but now you will find you are getting about 1.10. And that makes a big difference for everybody – tourists, people buying property, even more important for import and export."

## Squeeze

If the product is costing more in Sterling terms, it is likely put the squeeze on profit margins. But as Beddell explains, there are a couple of things that you can do to protect yourself against such currency movements.

For example, a company ordering parts from Spain today is likely to be invoiced for them today, but will probably not pay until they are delivered a few months later. In that time, the exchange rate could have dramatically taken a turn for the worse, exposing the company to potentially dangerous losses.

The way to protect yourself from this uncertainty, however, is to organise what is



called a forward contract. "A forward contract effectively reserves the euros today at a fixed price," Beddell explains, "for when you are ready to swap currency at a future date. When you need to pay the supplier, if the market has dropped to 90 cents to the pound, you are not impacted by the drop, because you have already fixed your rate at 1.10."

Working rather like a fixed mortgage, it removes the element of risk and allows you to financially plan ahead, knowing exactly how much you will pay, irrespective of euro exchange rates.

On the other hand, with rates so low at the moment, some businesses might be concerned about losing out if the market moves the other way. But again, TorFX can offer a solution to this, through what is called a "stop loss order".

"The short-term trend is up at the moment," says Beddell, "and we can help businesses take advantage of that. Say that rate is 1.12 today, what we can do is put a stop loss order in at 1.10, which means that if the rate drops to 1.10, the currency is automatically purchased at that rate. That's the worst case scenario. But if it keeps going up to say 1.15, or 1.16 we can either buy there, or move the stop order

up to 1.13, locking in the additional gains, while still allowing the client to participate from further upside."

## Specified

And with currency trading being a global market, operating 24 hours a day, all the orders are placed electronically, so even if there is a big currency move overnight, the stop order will always be activated immediately if the specified price is reached.

"It is all about controlling the risk," says Beddell. "Some clients like to work the market for a better rate, while others will have no appetite for risk and take the current rate every time. The best advice we can give is, if the current rate is acceptable, buy now and remove the uncertainty."

And then there is the other side to the stop order – the limit order. "Ok, say the rate is 1.12 now, but I'm really looking for 1.13. With a limit order, we buy the currency the moment the rate reaches that level. Many clients will buy a stop order and a limit order together, whichever rate is hits first will be the one they trade at." ■■

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