SMART CURRENCY BUSINESS

WHY SHOULD BUSINESSES MANAGE THEIR CURRENCY RISK?

All businesses trading internationally are exposed to the inherent volatility of currency markets. If your foreign exchange exposure is not managed properly, it can have a highly damaging impact on your budget, profit margins, cashflow and overall business goals.

In the last 4 years, we've seen the pound fluctuate between 1.42 to 1.03 against the US dollar (a movement of over 30%). On average over the last 10 years, GBP/USD has moved over 12% every year, with GBP/EUR also showing significant volatility.

With rising geopolictial tensions, taffif wars, a fragile economic outlook and more, many experts predict this volatility will continue into 2026.

As a business with a currency exposure, ask yourself the following questions:

- Do you chase the 'best' exchange rate or manage your currency exposure effectively?
- What effect would a 10% movement in exchange rates against you have on your profit margins?
- Do you have a risk management policy in place to help you manage your currency exposure and make informed decisions?



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Why do you need a currency risk management policy?

Below is an example of a UK company that buys its goods from Asia in USD. The business did not manage its currency risk. This table details the impact an **8% fall in the GBP/USD exchange rate** had on their underlying profitability and sales.

Budget Rate	1.30
Turnover	£5,000,000
Cost of Sales USD Cost of Sales GBP	$5,600,000 (£4,307,692)
Gross Profit	£692,308 (13.8% GPM)
Admin Expenses	£300,000
Operating Profit	£392,308 (OPM 7.8%)

GBP / USD Falls 8%

EXCHANGE RATE

New Rate	1.20
Turnover	£5,000,000
Cost of Sales USD Cost of Sales GBP	$5,600,000 (£4,666,666)
Gross Profit	£333,334 (6.7% GPM)
Admin Expenses	£300,000
Operating Profit	£33,334 (OPM 0.7%)

Just an 8% fall in GBP / USD would see the margin on operating profit drop from 7.8% to just 0.7%

By failing to hedge its currency exposure from the outset, an **8% fall in the value of the pound has reduced the company's operating profits by nearly 90%**, resulting in a direct impact on their available cashflow. To maintain the same level of profitability, the company would need to increase sales significantly in order to offset this loss.

Why do businesses fail to manage their currency exposure?

We have come across many businesses that do not manage their currency risk for several reasons:

- The business owner doesn't have the time, knowledge or experience to manage this risk proactively.
- Currency exposure is not seen as a significant risk to the business, and the owner is often unaware of the potential losses it could face.
- The systems used to value and report the risk are inadequate.
- The business is solely focussed on the spot rate at the time and is always looking to benefit on 100% of their currency exposure, should exchange rates move in their favour.

We often see businesses posting foreign exchange losses, which have occurred when they've only tried to improve their spot price (usually by 0.1% – 0.2%) without considering the implications of a much larger (3% – 10%) market movement over a period of time.

Should you base your decisions on currency predictions?

Alternatively, businesses may try to base their decisions on predictions about what will happen to currencies in the future. However, not even the experts can accurately foresee where the market will move next, so making any decisions on currency forecasts can be dangerous.

Below are rate predictions from major banks for 2026 and the possible impact on your budget. If you were exchanging £1 million for USD, the predictions carry a disparity of $240,000, and for EUR a disparity of €80,000. **This large disparity between predictions shows how unreliable they can be.**

Curency Pairing	Min. Rate	Max. Rate	Amount Changed	Min-Max Variance
GBP / USD	1.20	1.44	£1 million	$240,000
GBP / EUR	1.10	1.18	£1 million	€80,000
EUR / USD	1.10	1.25	€1 million	$150,000

Here at **Smart Currency Business**, we help companies create long-term currency risk management strategies, utilising your financials, KPIs and business objectives to ensure currency volatility does not affect your ambitions. Though our personal dealing service, advanced online platform, in house analysts and reporting tools, you'll receive all the support you need to manage risk and protect your business.

Why we work with Smart Currency Business

Business owners and their finance teams should always take the time to evaluate their foreign exchange risk. We we have partnered with currency risk management specialist **Smart Currency Business**, who can work alongside your company to help develop your currency strategy and policy. Smart Currency Business is an award-winning treasury management provider with more than two decades of experience working alongside British businesses.

- FCA-regulated
- Trade Billions in currency every year
- Over 150 people in the business
- 20+ years old

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