Make sure you have a currency strategy in place

CARL HASTY, head of trading with Smart Currency Exchange, looks at the likely success of the latest Greek bail-out and implications for the euro

Carl Hasty

First of all those figures again: the second Greek bailout was for another 130 billion euros ($175 billion). In accepting this, the country's leaders must seek to reduce Greek debts to 120.5 per cent of GDP by 2020. EU technocrats will be on hand to monitor the situation and ensure the Greek authorities are sticking to their side of the bargain.

The question is, will all of this be enough to keep Greece in the Eurozone? Will the necessary austerity measures be implemented and will the Greek people accept them? And what are the implications of all this for the euro?

There are several issues to consider here. The first is one of politics. Writing in The *Guardian* recently, noted Greek academic and journalist Apostolos Doxladis related a very interesting fact: although 750,000 people (15 per cent of the Greek workforce) have lost their jobs since the Eurozone crisis began, not one is from the wider public sector – which employs one out of four Greeks.

The bloated, corrupt state of the public sector in Greece is well documented. Making cuts to it to satisfy EU officials is going to be hugely challenging and will doubtless lead to more civil unrest. This, then, is obstacle number one to the success of the bailout.

Obstacle two is the issue of economic growth. The Greek economy has been creaking at the seams for years. In fact, Greece's economy is going backwards; it contracted seven per cent in the last quarter of 2012. This is Depression territory.

So, on the one hand you have government revenues declining at an alarming rate; on the other, interest on Greek debts now stands at 121 per cent of Greece's current GDP…the figures just don't stack up. If the Greek economy doesn't buck up, the country is heading towards bankruptcy.

The answer, many believe, is for Greece to leave the euro and return to the Drachma. The 'new' currency would need to be devalued – by between half and two-thirds, depending on which forecasters you believe – and Greece's tourist and export sectors would be boosted. Such a scenario is, for many, the least painful option; it might soon be the only option.

What does all of this mean for the euro? More instability is the likely answer. Sterling is currently hovering around the €1.20/£1 mark against the euro. By recent trends, this is a good rate. For businesses that will need to be trading in euros in the coming months, now looks a good time to buy in a percentage of the euros you are likely to require by using a forward contract.

Even if the euro were to depreciate further in the coming months against sterling – as appears eminently possible – this still represents a good hedge. Why? Because it means you can capture the current attractive rate while still being in a position to take advantage of any further upside on sterling later down the line.

There is a bigger picture to think about here where currency strategy is concerned. We believe the problems in Greece and, indeed, the Eurozone generally are far from over. The soaring price of gold is a sure sign that the markets are unnerved. The huge indebtedness of many Eurozone nations means that a partial – or complete – break-up of the Eurozone remains a realistic possibility.

If your business is engaged in international trade, having a sensible currency strategy is more important than ever against such a backdrop. You need a currency partner to be proactive on your behalf and ready to respond quickly to what are fluid circumstances in Europe. Now is not the time to be taking chances where currency exchange is concerned.

At Smart Currency, we update our views on the euro/sterling exchange rate on a daily basis. We also produce on a monthly basis our *'Outlook'* report, which pulls together our thoughts and those of the mainstream banks on where to next for exchange rates. Download your copy now at ***www.smartcurrencybusiness.com/rail*** or call us on ***020 7898 0500*** to discuss your situation.