THE HANDBOOK

The SME guide to foreign exchange

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SMEs and foreign exchange

Exchange rates move constantly, and while some are influenced by more factors than others, there are many universal elements that can initiate movement. Today's world is more fast-paced than ever before. Businesses that are growing require planning and guidance.

For many SMEs, saving money is important, especially with the rising cost of business in an unpredictable economy and ever-fluctuating foreign exchange markets. When making or receiving an international payment there are a few aspects to consider.

International banks operate in different time zones, and some transfers go through intermediary banking networks. These factors tend to increase the transaction fees and slow down delivery.

Exploring expanding your small or medium-sized enterprise internationally?

From identifying some best practices for entering international markets, to considering practical needs like cross-border payments, we'll take you though some of the challenges SMEs may be faced with when expanding business overseas.

Moving or exchanging money via a traditional bank account may mean that payments make many stops along the way, at different I banks and institutions. Transactions might be hit with multiple fees and charges - that adds up!

For starters, small and medium enterprises (SMEs) can benefit from a foreign exchange provider to help streamline their global payments process. An established provider with global presence can offer more efficient payment rails, smooth settlements, savings on wire and transaction fees, and competitive exchange rates.

There are many things you can't control, like foreign exchange (FX) market movements, but we can help streamline your cross-border payments process, with years of expert experience in risk management and transparent FX trading.

Consider this checklist to get started

- Plan and map out your business's forex needs
- Keep an eye on FX rates: exchange rates are constantly fluctuating
- Identify potential risks and protect your business with market insight
- Evaluate the potential savings when paying bills in local currency
- Compare fees charged by banks and other FX providers

Factors influencing currency movement

Economic data

Based on economic statistics from each country, data show how different areas of the economy are performing. Some of the most-watched indicators measure growth, inflation, and labour market data.

An exchange rate is when one currency is exchanged for another, facilitating trade and movement of money between countries/nations. An exchange rate gives us the relative value of one currency against another.

A strong currency increases (or "inflates") prices for companies importing from that country. However, many economists agree that a small amount of annual inflation (1 to 2% annually) is normal for a growing economy,

The FX market Is a pivotal part of the global financial system and plays an essential role in the global economy. As trading becomes increasingly electronic and automated it's more important than ever to tap into new tools and strategies.

It's clear that the foreign exchange market has undergone changes over the years as rates rise and fall, and exchange rates remain unpredictable as they are based on the assumption of risk. Much economic data and research today indicate just how much the global foreign exchange market is interconnected, yet fragmented. Another major factor is political events and changes, which at times have taken the FX world by storm.

Politics

Many factors influence foreign exchange rates, from economic instability to political events that can trigger volatility. As we've witnessed throughout history, political unrest is a major catalyst that can influence exchange rates in the short or long term.

Political events can create significant market movement as uncertainty increases. For example, when the Brexit referendum occurred in 2016, the Pound (GBP) fell by 20% against other major currencies before stabilising.

Political events can affect currency markets in a variety of ways. In some instances, political events can set off market fluctuation; in other cases markets react relatively calmly. One aspect is for sure: the foreign exchange market is unpredictable. One cannot look into a crystal ball and precisely predict an outcome - yet!

Natural disasters, conflict, unprecedented events

Many countries require you to have a job before they issue you a visa. So, if you decide Risk appetite can change almost immediately should an unprecedented event hit. Covid-19 is a recent example, where there was a movement into 'safe-haven' assets as the global economy came under pressure and uncertainty rose. There have been many natural disasters like fires, floods, heatwaves, earthquakes: climate events continue to rock the globe and dominate many news outlets.

A key protective measure against events like natural disasters is to have a solid risk strategy and plan in place. The effects of unprecedented events can be catastrophic for the country or region you're doing business in. Just as it can be helpful to keep an eye on political events, natural disasters can have an immediate impact on all corners of the globe, exchange rates and currency values.

The combined damage including loss of life, damage to infrastructure, factories, and distribution centres, and overall uncertainty, can also increase FX market volatility. Infrastructure is the backbone of the economy, and rebuilding costs can pile up after disaster hits – especially in locations beset by corruption and/or excessive red tape. The combination of an expected decrease in consumer spending due to economic uncertainty, and reduced consumer confidence, often weakens the affected countries' or regions' currency and overall economy.

After a natural disaster it is almost certain an affected nation's currency will weaken – and on the unforgiving FX market that can be a loss for some and a win for others.[1] (Of course, such "wins" don't diminish the catastrophe of human lives being lost.) Measures that can be very helpful to protect against FX risk in the event of disaster are planning for uncertainty, building in some flexibility, and buffering with a backup plan for managing volatility.

[1] Investopedia, "How Global Events Affect the Forex Market." https://www.investopedia.com/articles/forex/11/international-events-affect-forex.asp#:~:text=Earthquakes%2C%20floods%2C%20tornadoes%2C%20and,effect%20on%20a%20nation's%20currency. As of 11 Oct 2023, this article says it was last updated on 25 Aug 2021.

Technology and Security

Technology can be of benefit to SMEs when they are planning to trade or make payments in foreign markets. There are smart payment technology solutions that can make it safer to cover operational processes and improve workflows, and which can provide more security than email. An FX provider can help a business access the global marketplace while ensuring more informed international payments or FX trades, especially considering that each jurisdiction has different requirements and standards. For example, the European Union's General Data Protection Regulation (GDPR), or California's California Consumer Privacy Act (CCPA are measures to protect consumer data but are not universal. With appropriate technology, security measures, and consultation typically offered by an FX provider, SMEs can navigate international privacy requirements and operate more securely.

It Is critically important to remember that a domestic payment typically falls under the jurisdiction in which it's being received. An international payment, once released, could touch multiple international jurisdictions, and so successful retrieval of funds – to reverse alleged fraud – tends to be limited. One main reason is a fraudster usually plans to immediately withdraw the proceeds, or transfer funds to other accounts. Laws and their enforcement can likewise vary widely from country to country.

Fraud schemes are becoming increasingly prevalent and more sophisticated , which often results in fraudulent payment instructions being inadvertently sent. Following best practices for protection can significantly reduce the risk of wire and email fraud, phishing, caller ID and email spoofing. These, combined with proper training, can reduce risks that arise from human error.

Many banks and payment providers offer online payment platforms where you can upload files from and download files to all major ERP systems, and connect to other accounting platforms too. This makes it easier than ever to improve transparency and efficiency across all avenues. If you already use online banking for personal and business – now you can stay connected with FX transactions too.

Managing FX payments and volatility – Tools for reducing uncertainty

Now that we've covered the basics about the dynamic foreign exchange market, what's next?

Let's dive a little deeper into hedging tools you might consider using to mitigate risk in your global payments. (This is provided as a general overview only, not as advice or recommendation. Please consult with a provider and a third-party to be sure you understand the risks and implications for your business.)

Hedging might sound a little risky, but for some businesses exposed to FX market it can help increase certainty and reduce risk. Let's look at some potential-upsides of FX hedging.

Basics of hedging[2]

An SME might find hedging useful for one or more of these instances:

- Fees due in the future, such as invoices, or forecasted supplier costs
- Profit margin protection
- Eliminating risks that currency volatility can cause
- Visibility and increased stability in cashflows
- Maintaining the desired budget rate
- Capitalising on a market shift
- Reducing the amount of time spent on FX
- Giving exports/imports more price stability

Forward contracts

SMEs often want to improve their budget management; utilising a forward contract can help you plan ahead and give you more certainty in your expenditure. Qualified businesses can lock in exchange rates for up to 24 months (with some currencies), eliminating the need to commit all your cash up front and offering protection against unfavourable currency movements.

When entering a forward contract, you may need to pay an initial margin (usually up to 10% of the value of the contract). You may sometimes need to "top up" your margin with an additional payment (called a "variation margin") if the market moves against you. Your provider will let you know in the event this is needed (a "margin call"), and will outline the parameters of the contract before you book.

Fixed (closed) forwards

A fixed forward allows a business to fix an exchange rate on a specific day for up to two years into the future. The future date that you and your provider mutually agree is called the value date.

Flexible or windowed (open) forwards

These types of forward contracts can give you more flexibility around cashflow timings, with the option to draw down on the forward before the value date within a specified window. Some businesses might want to use a blend of fixed and windowed forwards to give their Financial Directors and teams more flexibility.

Every business is unique, and we've become experts in supporting clients as they design their bespoke strategies. We consider client-specific goals and attitudes to consult with them as they choose the products they deem most appropriate for them.

Limit Orders

Limit Orders allow you to define a target rate for a currency you would like to trade for another currency by a given future date. Unlike a forward contract, there is no initial-margin required. If the currency reaches your target rate during the term of the Limit Order, the trade will be executed automatically (and you will be responsible to fully fund/settle the resulting order). If it doesn't achieve your target rate by the expiry date, you are free to trade on the spot market.

A business can set a "worst-case" rate at which a trade will automatically be made if it reaches that level in a negative market move, protecting against further losses. Alternatively, they can target a better exchange rate than the current spot rate to capitalise on a positive movement should it occur. In each scenario, the trade will automatically be executed if the market reaches the target rate.

[2] Some businesses use derivatives to manage risk, including currency options or FX structured products. We have not included them in this guide because these products can involve a high degree of risk and are not suitable for everyone. You should be sure that you fully understand the product and the risk to determine if your business is one which meets suitability criteria for booking FX Option contracts. To learn more, please contact us.

Settling your payments

There are several different ways to transfer funds, including wire transfers, electronic fund transfers, international money orders (iACH), online payments platforms, and SWIFT transactions. Costs and delivery times vary.

If an SME wants fast, seamless, and reliable payments, where trades can be quick and inexpensive with the option to hedge at fixed exchange rates, an established payments provider that specializes in foreign exchange for SMEs can help to move money reliably while mitigating risk and reducing extra bank fees.

What a currency broker can offer your business

Protecting your funds and helping to maximize your return in the world of global business.

A payments specialist can help you navigate a market that you might not understand with greater confidence and insight into smarter business trading. With an FX payments expert like Corpay Cross-Border, you can equip yourself with the tools to control exposures and manage FX payments and volatility seamlessly.

In an unpredictable FX landscape, it's reassuring to have some element of control in the FX market. Corpay helps SME businesses protect their money and reduce risk in their international transactions.

Our team works with you to help you to find efficiencies in the way you manage your FX. With Corpay, you'll receive competitive rates of exchange and regular market updates to help you stay current with market movements.

If you'd like more freedom to organise your trades, you can set up payments and manage your beneficiaries, whenever and wherever you want, with our award-winning online platforms.

Often a single shift can make all the difference. Our experienced dealing team keep their eyes on the market. That watchfulness can help flag key shifts in the market for you. Our Market Commentary offers insights that can help you better understand what's happening in the global markets—and associated currency movements. Our proprietary Currency Research portal provides more in-depth analysis.

Whether you need to make a one-off payment, or to develop a multi-currency hedging strategy, we can help you weigh in – as you plan your FX and cross-border payments – global, economic, and political factors which could impact your FX rates.

Get a free FX review

Corpay can offer a no-obligation consultative FX review for businesses looking for help as they improve management of their foreign exchange exposure. Our team are experts at identifying ways to help you optimise your strategy, giving you a more efficient approach to FX while helping you to protect your bottom line. We can review your credit facilities and working capital, provide increased visibility on your foreign exchange cashflows, and ultimately, reduce the time you spend managing your FX.

Our FX review is tailored to your business and provides you with information on how you can benefit from or improve foreign exchange risk mitigation to help you make intelligent foreign exchange decisions.

Connect with us to schedule a no-obligation review of your FX needs or get a demo of our award-winning online trading platform

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