Sterling advice for Irish exporters as Brexit rocks currency

Craig Fitzpatrick - 13 oct 2016

With smaller firms here keeping a close eye on the Unilever row, AIB has some tips on mitigating for currency shifts...

As consumer goods behemoth Unilever's attempt to force a price rise faces massive resistance from the likes of Tesco and SuperValu today, it seems small Irish food and drink exporters will have very little negotiating power with the powerhouse multiples stocking their goods if they attempt to similarly mitigate for a weak sterling.

The value of sterling has fallen 20% in the past year, with a 17% drop coming since the Brexit vote in June alone.

That will undoubtedly hurt companies dealing with extremely tight margins, and the preparation here hasn't been great – the Irish Exporters Association found that 68% of Irish firms selling into the UK had no hedging in place prior to the Brexit decision.

As John Sheils, treasury manager with AIB, explained on *Breakfast Business*, it's high time they got their house in order. So how can they reduce their exposure to a precarious pound?

"What you should be doing is using currency hedging to ensure that you're making your money based on how good a beef producer you are, mushroom producer, widget producer..." Sheils said. "Rather than trying to allow currency to actually dictate the extra couple of percent or *[bigger shift]* in profits."

"Traditionally what we would have said to companies was that hedging allows them to budget and forecast and the likes.Now what you're looking at is, those who have hedging in place being facilitated whereby they're not the first ones coming in the door looking for increases from the UK multiples.

"Once you have hedging behind you, it buys you time, so that you're not the first man in. Let someone like Unilever go, break down the doors and negotiate their increases so that you can toddle along afterwards and benefit from their negotiating power."

So how far into the future can firms mitigate for?

"Different companies will do it differently and it depends on the level of certainty they have over their cashflows.

"The most basic hedging tool that most companies would use would be a standard forward contract. Which gives certainty of a rate and an amount; it's a contract between you and the bank.

"I know some companies will go literally on a deal-by-deal basis... so once they've negotiated a deal, lock it away, and lock in your profit margin and move on to the next deal."

Once a business deal has been struck, Sheils advised small businesses to go to their bank with the contract:

"That way you're essentially securing your margin and you can move on to the next deal."

And the cost for this security?

"For something like the forward contract, there is no cost *per se*. It's determined by the current spot market, plus an adjustment for the difference in the interest rates between – let's say in this case – the UK and the Eurozone.

"Separate to that then you would have things like option contracts.

"An option is something whereby you would pay a premium up front, like an insurance policy, but in exchange for that you can't be held to the contract. You have the right without the obligation."

Finally, Sheils suggested businesses generate as many of their costs in sterling as possible.

"Even if you're using an Irish distribution company, and they're distributing to UK multiples for you, odds are a significant portion of their costs are actually in sterling too.

"So rather than you selling your sterling into euro, paying him euro, then him buying sterling with it, see if you can strike a sterling deal. So at least that's a portion of your UK receipts that aren't actually susceptible to moves in the currency."