

Media Release

UK Small Business Highly Exposed to Currency Volatility in post-Brexit World

(11 July 2016 – United Kingdom) Around two thirds of small businesses in the UK are exposed to currency risks, new research from market analysts East & Partners Europe has found. However, in the last year, larger businesses as a whole have sought to mitigate the fallout from a volatile foreign exchange market.

The research shows that in the first half of 2016, all Lower Corporate businesses (£20-100m annual turnover) adopted sophisticated FX hedging products such as Options and Forwards, while the vast majority of SMEs (£5-10m annual turnover) and Micro businesses (£1-5m annual turnover) have continued to rely on Spot FX products.

The use of FX Options by Lower Corporates in the UK is now universal, increasing from nearly nine out of ten businesses a year ago. A similar trend has also been seen in the use of FX Forwards with less than 5 per cent of lower corporates not using such products now.

In stark contrast, only one in five SMEs and Micro businesses were using FX Options, although over a quarter of SMEs have used FX Forwards products.

Although the research shows that the smaller business segments are increasing their use of more sophisticated hedging products, 75 per cent or more still rely just on Spot FX products with no FX risk management strategy in place.

“UK small business is highly exposed to the currency fluctuations taking place in the post-Brexit world and they’ve failed to recognise the potential increase in risk a ‘Leave vote’ could create”, said Simon Kleine, Head of Client Service for East and Partners Europe.

“Lower Corporate businesses clearly recognised the need to adopt the use of FX hedging products in the last year, with an acceleration in their use in the six months leading up to the UK EU Referendum resulting in a universal use of FX Options now.”

Three major banks, Citi, Deutsche Bank and HSBC dominate the FX hedging market, with a combined market share of around 30 per cent in both FX Options and FX Forwards products.

However, non-banks providers have gained some share of the FX Forwards, increasing 13.7 per cent to 15.3 per cent in the last year, while there was a slight drop in their share of FX Options, declining from 12.6 per cent to 12.1 per cent in the same period.

In the Spot FX market, Barclays (14.3 per cent) continues to lead followed by HSBC (13.6 per cent) and Lloyds (10.6 per cent) but their cumulative share with other UK banks (RBS and Standard Chartered) has declined from 49.5 per cent to 48.6 per cent.

Overall, the performance from non-bank providers in the Spot FX market has been mixed. Western Union leads the pack, experiencing 45 per cent growth in the last year, albeit from a low base of 2.2 per cent, while Saxo nearly doubled its market share to 1.3 per cent.

“Banks continue to dominate the FX hedging market but competition is growing from non-banks and new entrants as UK businesses, both large and small, are starting to seek alternatives on both price and support to meet their foreign currency needs,” Kleine said.

About East & Partners UK Business FX Program

East & Partners UK Business Foreign Exchange Markets programme is based on more than 2,200 direct interviews with CFOs, corporate treasurers, company accountants and others responsible for the company's FX and import/export activities.

It reviews the business FX product categories of Spot FX, FX Options and FX Forwards. Key industry benchmarks reported include market share, wallet share, mind share, top traded currencies, market volumes and customer satisfaction.

The programme provides coverage across three corporate segments: Lower Corporate with £20million to £100 million turnover, SME (small to medium size enterprises) with £5 million to £20 million turnover and Micro business with up to £5 million turnover. Micro businesses represented 50.7 percent of survey participants, SMEs 30.8 percent and lower corporates 18.6 percent..

Just over 40 percent of UK companies responding to the survey were in the manufacturing sector, 21 percent in wholesale, 7 percent in retail and 6.5 percent in financial services excluding banks. The remaining 25 percent included companies from a number of industries, spanning property/business services to transport/storage.

About East & Partners

Established in 1987, East & Partners is a leading specialist business banking market research and analysis firm. The firm's core expertise is in the provision of analysis and advisory services tailored for the commercial, business and institutional banking markets across Asia Pacific, Australasia, Europe and North America.

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