Achieve More For Your Money

Navigating the FX markets through the Covid-19 Pandemic

Presented by Currencies 4 You

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Currencies 4 You
global payment specialists

About Us

Simplest & most efficient way of exchanging currency.

Currencies 4 You Limited is one of the fastest growing foreign exchange specialists whom have a team with over 40 year's experience. Currencies 4 You came to be when it was apparent that many clients were being charged over the odds with their currency transfers. By dealing directly with the currency markets, it means the middle men are brushed aside, this then allows buyers and sellers to be matched against each other, therefore allowing the client to have a competitive price on their foreign exchange.

Why Choose Us?

Currencies 4 You are recommended by thousands of clients every year and here is why.

- Fully FCA Authorised Payment Provider
- Transparent Exchange Rates
- Excellent Customer Service
- Fast International Payments
- Free Online Platform
- Personal Relationship Manager

Current Situation

Ever since coronavirus was labelled a global pandemic, it has unfortunately spread very fast around the world, but not just through people- through economies as well. A country’s currency is directly or indirectly linked to its economy, so as economies are beginning to falter, so are their respective currencies.

We have seen rate cuts along with large amounts of QE across many countries to try and lessen the blow of the virus.

As we are aware the currency markets are very sensitive and do not react well to unexpected global events. With this outbreak spreading with no signs of slowing this is affecting trade worldwide and therefore this has made the FX markets even more volatile than they already are.

Sterling Update

The Pound has struggled since we voted to leave the EU in July 2016. Since then it has been an uphill struggle, but this was starting to change following Boris Johnson’s landslide victory in December- providing a heap of certainty towards the UK successfully leaving the EU due to his majority in Parliament. Unfortunately, as the year has progressed, Covid-19 has spread all over the world- causing lockdowns in the USA, Europe, the UK, and pretty much everywhere else. Though these lockdowns are being done for correct reasons, and hopefully successfully slowing the spread of the virus- it is, unfortunately, crippling economies as each day passes by.

The rapid growth in cases and deaths in the UK has shown that the virus is just as economically contagious as it is medically contagious.

Central banks have all cut interest rates- and begun printing more money than ever before to try and keep liquidity open in the markets to prevent crashes, the UK and US Governments have also added wartime fiscal measures to try and prevent loss of employment and businesses from going under through this period- but with all that said, it still may not be enough.

The Bank of England have stated that they will look to do more QE (Quantitative Easing) from June- which will effectively weaken Sterling, and we could potentially be looking at further interest rate cuts down the line- as more and more central banks are talking about negative interest rates.

Our latest GDP numbers suggest that the UK (Alongside every other country) will soon fall into a recession (For clarity, two quarters of negative GDP (Growth) lead to a recession)- which will again lead to a weaker Pound.

Looking past this pandemic- which will evidently be with us for the foreseeable future- the UK is also in the midst of trade negotiations with the EU- at this point it seems the UK Government is not willing to extend talks beyond July and will not be seeking an extension- and this seems likely.

Current Situation

However, there are several key dates that will add to the volatility in Sterling this year, which we have detailed below.

Month	Date	Event
May	11-15	Third Round of EU-UK Trade Negotiations
June	1-5	Fourth Round of EU-UK Trade Negotiations
	10	G7 Summit
	18-19	EU Council Meeting
July	1	Formal Deadline for Transition Extension
September	19	Labour Party Conference
October	4	Conservative Party Conference
	15-16	EU Council Meeting
November	3	US Presidential Election
	21	G20 Summit
December	10-11	EU Council Meeting
	31	End of Transition (Assuming No Extension)

We would characterise the path ahead as a soft landing to a “hard” Brexit destination. Over the next six months, we expect that path to be increasingly turbulent, with the acute risks posed by Brexit negotiations escalating just as the immediate risks posed by Covid-19 gradually being to dissipate.

Please see below for a table highlighting the changes in GBPEUR & GBPUSD exchange rates from January until now.

Currency Pair	Rate in January	Low of 2020 (March)	Rate in May (Current)
GBPEUR	1.19	1.05	1.13
GBPUSD	1.32	1.14	1.23

As you can see, Sterling took a hit of nearly 15% so far through this pandemic, and though we have slightly recovered, the path is still not clear for a bullish trend yet for Sterling, which makes strategy more important than ever.

Current Situation

Euro Update

With the number of new cases of the virus now mostly under control in China, Europe has very much emerged as the epicentre of the COVID-19 pandemic, alongside the US.

The common currency initially rallied sharply in late-February, early-March as the market began ramping up bets in favour of aggressive interest rate cuts from almost every major central bank. With plenty of scope for Federal Reserve rate cuts and almost no room for manoeuvre for the European Central Bank (ECB), investors sold their Dollar holdings and flocked to the Euro. With rates now down at zero in the US, this rationale for the upward move in EUR/USD has evaporated, with the common currency crashing from around the 1.15 mark on 9th March to the 1.065 level ten days later. The pair has, however, since stabilised, largely due to a retracement in the dollar, although the recent stabilisation in cases in Europe has helped the Euro's cause in the last few days.

As mentioned, the ECB has almost no room to cut interest rates to combat the crisis, unlike many of its peers. The Governing Council's March meeting left the market underwhelmed, with no rate cut and some contradictory comments regarding European bond yields. The bank did, however, increase its existing quantitative easing programme and will now purchase a further 120 billion euros worth of assets before the end of the year, in addition to its existing asset purchases worth 20 billion euros a month. It also unveiled a new scheme, the Pandemic Emergency Purchase Programme (PEPP), which will see the bank buy an overall envelope of 750 billion euros before the end of 2020 to keep the financial system liquid. Similar to the existing APP, this will include the purchase of government debt, as well as commercial paper (a short-term debt instrument) from private companies. This vast bazooka of a programme sends a strong signal to markets that the bank stands ready to do whatever is needed to support the financial system.

To soften the blow to businesses and consumers, local governments within the bloc have also announced large-scale injections of stimulus. Most notable has been Germany's 750-billion-euro programme, which includes direct payments to businesses under threat and favourable loans to corporations. In such a crisis, we think that these measures will be overwhelmingly more effective in protecting jobs and supporting households than a simple interest rate cut. They will, in our view, only act to soften the now seemingly inevitable Eurozone recession, rather than prevent it.

Current Situation

An early warning sign of the unprecedented impact the strict containment measures are likely to have on the Euro Area economy came in the form of the March PMI numbers which, unsurprisingly, showed a massive decline into contractionary levels. The services index, the sector of which relies much more heavily on consumer demand than manufacturing, collapsed to an all-time low 26.4, dragging the composite index down to a deep recessionary 29.7. This is in line with quarterly contraction of around 2%.

Given the aggressive spread of the virus and the severity of the containment measures put in place in many of the bloc's key economies, we think that the pending recession in the Euro Area will be a severe one. Should upcoming macroeconomic data show that this is indeed the case, we think that we could see the common currency on the back foot against many of its major peers in the coming weeks. The absence of job protection and mechanism to regulate and slow the dismissal of workers in the US relative to the Euro Area does, however, provide room for a rebound in the euro versus the dollar, in our view.

U.S Dollar Update

The most basic instincts among currency traders during times of intense market stress and uncertainty is to flock to the safety of the US dollar. The behaviour among investors to this crisis has been no different. The dollar appreciated sharply against just about every other currency in the world in the two weeks or so from 10th March. Emerging markets currencies were hard hit, as were those major currencies whose economies are either heavily dependent on the production of commodities and/or highly reliant on external demand. The severity of the regional containment measures and the number of confirmed domestic cases of the virus have also played a role.

As we have mentioned in the past, our main reasoning for investors favouring the US dollar is as follows:

1) The dollar is the most liquid currency in the world and therefore acts as the safe-haven of choice during times of intense market stress, such as the current crisis.
2) The US economy is less reliant on external demand than much of the developed world, particularly Europe.
3) The spread of the virus was comparatively less aggressive in the US than in Europe and Asia in the early stages of the pandemic. While the number of cases of the virus there has increased sharply in recent days, the number of cases per 1000 people still remains relatively low. This is, however, likely due to the US playing catch-up given the less rigorous testing conducted in the States in the early stages of the outbreak, so may not be a true reflection of the actual situation.

Current Situation

In trade-weighted terms, the dollar rose to its strongest position in four years in mid-March; While the currency still remains well bid against its major peers, it has since given up some of its gains. We attribute this retracement to both the jump in the number of US cases of the virus and the injections of liquidity by authorities to ease pressure on dollar funding.

The Federal Reserve has eased monetary policy aggressively on several occasions since the outset of the crisis. The central bank slashed its main fed funds rate by a total of 100 basis points to the effective lower bound (0-0.25%), back to where rates were following the financial crisis in 2008/09. There is now also talk of negative interest rates in the U.S, something that the Fed are not keen on, but something that President Trump is advocating for- and as history has shown us, what Trump wants, is what Trump gets! They have also unveiled a host of other stimulus measures, which have included but not been limited to the following:

– A relaunch of its quantitative easing programme. This was initially announced as a $700 billion programme, although the Fed has since pledged to purchase an unlimited amount of Treasury and mortgage-backed securities in order to support financial markets and the economy.
– A number of credit facilities that will involve the Fed buying corporate and municipal bonds and asset-backed securities (ABS), in addition to the purchase of US Treasuries. This should help drive down yields, provide liquidity and improve the availability of credit to American households and businesses.

For its part, the US government has also unveiled a massive $2 trillion stimulus package, the largest in history. The package will include direct payments of up to as much as $1,200 to most Americans, a large increase in unemployment insurance and a $367 billion allowance for smaller businesses worst affected by the crisis. The main issue for the US economy is that the government's job retention schemes are much less effective than many of its major counterparts, including the Eurozone and the UK. This means that unemployment will likely rise faster in the US than much of the developed world as a result of the crisis.

A severe recession in the US and globally is now inevitable, in our view. That being said, we remain hopeful that the global economy will bounce back sharply once the worst is over and the containment measures are gradually lifted. Unlike in 2008/09, there were no systemic issues in the global financial markets prior to the outbreak that would lead to a prolonged number of years in the doldrums, and the massive state response should prevent the downturn from resulting in a cascade of bankruptcies.

Current Situation

In the immediate-term, we may continue to see the Dollar act as the safe-haven currency of choice, although the sharp increase in the number of cases we are seeing in the US may limit the currency's appeal. We think that support for the dollar could be dented by two developments. Firstly, whether an improvement in the so far inadequate testing procedures across the rest of the US leads to a sharp increase in the number of confirmed cases in some of the least affected areas – signs so far suggest that this is indeed the case. The second factor would be whether this jump in US cases leads to stricter containment measures in more US states – some are so far more relaxed than others.

In the longer term- there are several arguments for a potentially weaker U.S Dollar- which are worth noting;

1. The US is currently on track to be by far the worst performer of handling the COVID virus, with the death rate not curtailing as it is in Europe and the UK it is likely the economy there takes a larger hit than the respective others. Economists also feel the chance of a 2nd wave in the US due to Trump opening up business too early has realistic potential.

2. The USD is known as a safe haven currency, this means it is purchased when investors are concerned about the global market. It has this status alongside a few other currencies but it is a standout. Some economists are suggesting that the COVID outbreak severity in the US may turn investors to offload USD as the safe haven choice and put their funds into other currencies or Gold.

3. Brexit talks have resumed in the last few days, It is widely known that Boris Johnson is keen to ensure this continues on the same path as it was left. However, the deadline for an extension to these talks is the end of June, only 2 months away. Most will agree the impact of COVID will likely be with us during this time and the focus of both parties will be on solving the pandemic. If this moves both parties to agree on extending (not risking a No-Deal Scenario) the GBP would likely strengthen significantly as this impending risk is kicked into the future. Any previous suggestions of this occurring has seen GBP appreciate.

4. Most of the world's foreign debt is denominated in USD, with the current economic climate requiring more debt to be taken on, a weakening of the USD would make it more feasible for repayments across the globe. This has been an issue with the USD being so strong in recent months and some alleviation here would be seen as a big plus. It is also Donald Trump's view that a weaker USD would lead to more imports when the market comes back, he has been vocal on wanting a weaker USD.

5. President Trump has now stated the trade deal with China is now on the backburner – for those of you who watch the market this heavily affected the Dollar price last year, and more volatility about this will weaken the Dollar and put strength into precious metals and other currencies as a hedge.

Strategy & Contract Types

Given the situation with GBP,EUR & USD and the inevitable global recession ahead of us- it is more imperative than ever to have a FX strategy in place to navigate the markets. It would be impossible to list off all of the strategies we put in place in this document, as they are tailored for our clients situations individually- however there are certain financial tools, which we have listed below which are worth noting for future planning for your FX transactions.

Forward Contract

A forward contract is a 'buy now, pay later' currency contract, and is the most popular way for companies to hedge their foreign exchange exposures. Your company agrees to buy one currency in exchange for another at a specified future date, at an exchange rate agreed upon today.

Market Orders

If you or your business would like to target an international payment rate that isn't achievable yet, our market order service can help. It's a perfect execution tool for clients who want to automatically execute a currency purchase when your target level is reached, with total peace of mind. There are two types of market orders offered by Currencies 4 You.

Limit Order

Set your target exchange rate, 24 hours a day, 5 days a week. Once your target rate is reached, a currency contract will automatically complete. This type of currency risk management contract ensures you don't miss out on a great exchange rate, while out at a board meeting or with your family.

Stop Loss

A stop loss order allows you to protect your currency purchasing budget and limit adverse impacts for your tradable currency pairing. You set a target rate below the current market exchange rate. This is your 'safety net' and the trade will automatically book on our marketplace when your 'stop loss' level is hit.

Strategy & Contract Types

One Cancels The Other (OCO)

You can set up a stop loss and limit order together. This product is designed to target a favourable exchange rate above current market levels, whilst at the same time, should adverse currency fluctuations take place, ensure you don’t lose out. As soon as either your stop loss order or limit order hits, the other is instantaneously cancelled. You can cancel the order at any time, so long as the agreed exchange rate hasn’t been hit.

If you have upcoming payments- and would like to discuss a strategy for your FX, we are more than happy to put together a strategy for you, but before speaking to us, it is worth thinking about the below points to give direction to our strategy.

1) **What are your deadlines for your payments?**
2) **What are the amounts you need to send out?**
3) **Do you have a budget rate in place? If so, what is it? (A budget rate is the exchange rate which guarantees your margin or still deems your investment valid)**
4) **How liquid are you right now? (This will help us identify what type of contract is better suited for your circumstances)**

With the above information- we will be able to work with you on a strategy which will mitigate your exposure to the market and ensure your goals are met.

Please email us or your relationship manager directly for further information.

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Your Security

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The FCA requires us to meet standards across three areas. Ebury exceeds all three of these standards which cover:

Capital Adequacy – The levels of capital requirements are based on our level of activity. The FCA reviews our capital adequacy on an annual basis.

Client Protection – Our client funds are held in segregated accounts, entirely separate from our own operating accounts, so client funds are always safe.

Robust Internal Risk Management – We have strict governance and operational processes in place to scrutinise the accuracy of each of our transactions, with appropriate involvement from our Directors. Compliance with our governance and processes is regularly audited.

Key Facts About Our Partners

- Working with 12,000+ businesses and organisations
- Traded £9.5bn in foreign exchange
- Transactions in more than 140 currencies
- Contributing to Bloomberg FXFC forecasting
- Backed by the most respected technology investors
- Member of FinTechCity's FinTech50 2015

Ebury is registered with the ICO under the UK Data Protection Act; our registration number is Z209673X. We do not share any client information with third parties and all client information is held securely on our remote servers. Client information, paper or electronic, is handled with due care; in line with Ebury's internal guidelines.

What our clients say

“Always great service, quotes come back very quickly and always seem to have the best rates, payments are actioned quickly and accurately.”

Roger Battersby
Director - Medical Supplies

“Exactly what we needed, professional, good pricing and great communication - highly recommended.”

Lee Halliday
Director

“I was first introduced to Currencies for You almost three years ago. I made two test purchases of euros with them. They were as good as their word and following that experience i have used them every month since to move over my pension. They have saved me money. I have recommended them to friends ever since”

Paul Bradford
Partner

“Currencies 4 You rates are substantially better than the bank and process of transferring the money to my UK current account takes very little time or effort on my part. I also find that their guidance on the market is spot on and of great help deciding when to make the trade.”

Charles Shiplee
BNI Director

“I would rate your service as excellent. You are clearly enthusiastic about your business and have been very proactive in providing useful updates on the market. Trades and transfers have been carried out efficiently without fuss and you offer very good rates. I have already recommended you to others and will continue to do so.”

Robert Smith

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