

Respond to Brexit uncertainty by evaluating exposure, monitoring negotiations



For U.S. companies intent on responding effectively to Brexit, little has changed since citizens of the United Kingdom voted in June to leave the European Union. Amidst the political upheaval and uncertainty created by the unexpected voting results, there continues to be only one clear short-term course of action for U.S. treasurers: It's important that they evaluate their company's exposure to pound sterling (GBP) volatility and the need to take any action to manage the related risk.

At U.S. companies that either trade with the U.K. or have operations there, making decisions about a wide range of longer-term issues should become easier once the U.K. initiates Brexit negotiations and reveals a defined strategy — a step new Prime Minister Theresa May has indicated she will take by the end of first quarter 2017. Even at that point, however, negotiations on new trade agreements are set to last two years, and no one knows how much longer it might take to gain approval from all 27 EU member countries on the resulting pacts.

With that as a backdrop, let's look more closely at the need to assess foreign exchange exposure, before reviewing some of the other challenges and opportunities U.S. treasury managers will be presented with as Brexit unfolds.

Managing foreign exchange exposure

"The U.S. companies most impacted by Brexit are those most exposed to the sterling currency," says Chris Braun, managing director and head of FX Sales at U.S. Bank.

Immediately following last summer's Brexit vote, the GBP experienced a dramatic slide relative to the U.S. Dollar (USD). But Braun says that was just a first taste of the volatility we could see throughout the Brexit process. "We've transitioned into a very long-term period of uncertainty and volatility," he says.

Some of the companies most exposed to Brexit-related risk have a big USD/GBP mismatch in their payables and receivables. "If you have a U.S. Dollar functional entity selling into the U.K. and getting paid in pounds — and the company has no natural offset to that — currency volatility could have a huge impact on their business," explains Mary Henehan, senior vice president and co-head of Commercial FX Sales at U.S. Bank.

When U.S. corporate treasurers take stock of their currency exposure and decide they need to actively manage it, a likely solution is hedging with derivatives such as forwards or options. "It's wise to go through that process and develop an appreciation for why you should or shouldn't employ a hedging program," Henehan suggests.

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Other challenges and opportunities

Here are some other observations from the U.S. Bank International Banking team to keep in mind as you monitor Brexit developments:

- **Brexit will have a major impact on U.S. multinationals with a foothold in the U.K. designed to provide a passport into the rest of Europe.** “Their long-term strategy and access to the European market could be challenged,” says Darcy Paschino, vice president and country manager for Europe at U.S. Bank.
- **Many U.S. multinationals may need to relocate their U.K.-based European treasury centers.** Dublin is currently a popular site for these centers.
- **Many will also need to revisit their global cash management structures and strategies such as cash pooling.** After Brexit, there may be new taxes associated with money movement across U.K. borders.
- **London’s days as the financial center of Europe might be numbered.** Banks have already started moving some of their EU operations out of the U.K. and into other countries. Several cities, including Frankfurt, are looking to replace London in that role.
- **A devalued GBP equates to lower prices.** That means better deals for U.S. companies importing from the U.K., as well as for U.S. firms looking to make direct investments in the U.K. “However, at the same time, a weaker sterling raises the cost of financing a U.K. entity,” says Craig Weeks, senior vice president and manager of the U.S. Bank International Banking Group.
- **From a trade standpoint, Brexit will likely have a bigger impact on U.S. banks than on U.S. corporations.** “While the U.K. is only the seventh largest U.S. trading partner, it’s America’s No. 1 partner when it comes to importing and exporting financial services,” Weeks notes.



Talk to one of our International Banking Group representatives about the challenges and opportunities presented by Brexit. To learn more about your company’s level of exposure to volatility in pound sterling, and possible solutions for actively managing that risk, visit with one of our Foreign Exchange specialists.