

MONEYCORP

Trusted foreign exchange
since 1979

100 Brompton Road
Knightsbridge
London SW3 1ER

T +44 (0)20 7823 7400

www.moneycorp.com

ABTOF Member Update Euro outlook & ideas on how to hedge your risk



TTT Moneycorp Limited has been certified to ISO 9000 Quality Assurance since 1996

Moneycorp is a trading name of TTT Moneycorp Limited
Registered in England: No. 738837
Incorporated 1962

Money Laundering Regulation (MLR) registration No. 12114128
VAT registration No. 897 3934 54
Registered office: 2 Sloane Street, Knightsbridge, London SW1X 9LA

TTT Moneycorp Limited is authorised and regulated by the Financial Services Authority for the conduct of designated investment business and the provision of payment services

■ Background

Whether you are a UK based ski company or tour operator offering trips abroad, one of the primary risks to your business, outside of the weather, will be adverse movements in foreign exchange rates. Although it is not possible to do much about summer sunshine or winter snow, by actively engaging in intelligent foreign exchange hedging, it is possible to mitigate the risk posed by currency fluctuations and even turn them to your advantage.

Moneycorp can provide you with expert guidance and market leading exchange rates coupled with a suite of hedging products that can be tailored to suit your business and your specific requirements.

Our FSA regulated dealers will be able to explain how to hedge your risk using traditional spot and forward contracts, but also how foreign exchange options might be used to your advantage. Options are often misunderstood and thought to be speculative products that expose their users to more risk rather than less; however, when priced fairly and structured properly they can be extremely powerful hedging tools providing a guaranteed 'downside' price in much the same way as a forward contract, but also permitting a degree of upside participation should the underlying rate move in your favour. This potentially means an end to buying a forward contract in November only to see the GBP/EUR rate rise by February and wishing you had waited, but without the inherent risk of leaving yourself unprotected should the rate move against you.

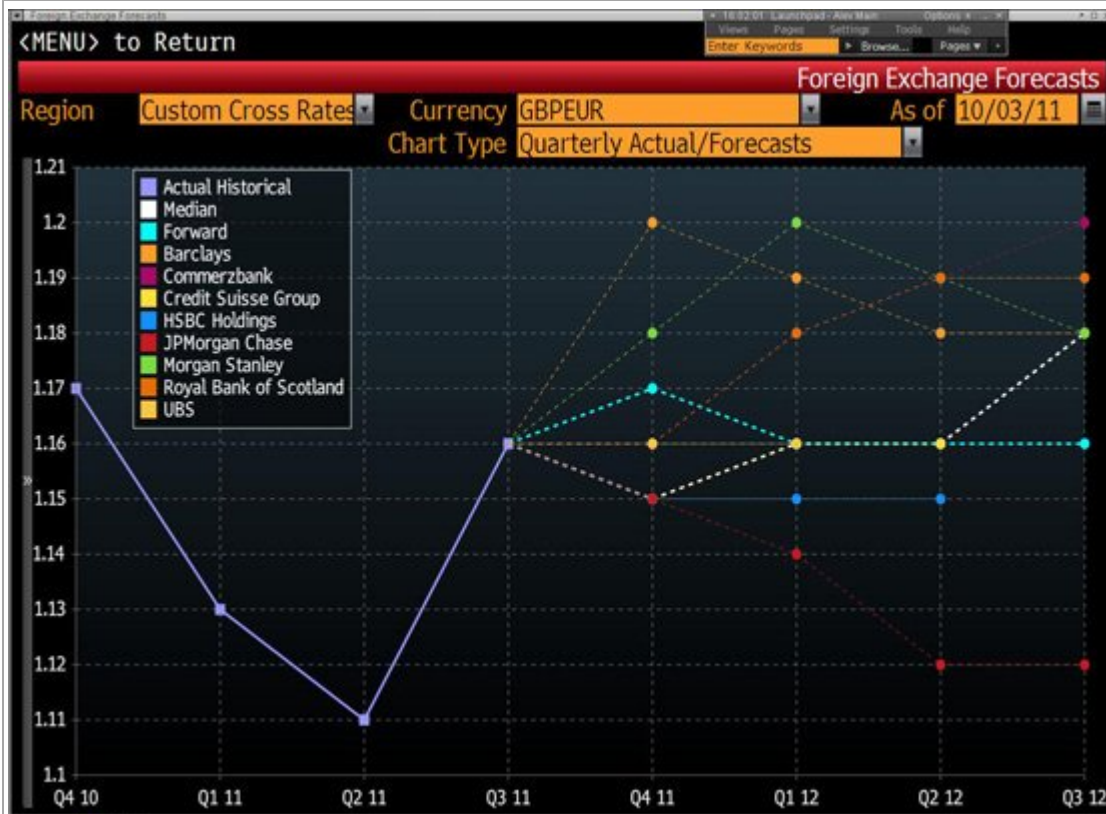
Foreign exchange options can carry a high level of risk to your capital and are not suitable for everyone. You should seek independent advice if necessary.

■ FX Report – Euro

With events in Greece still unfolding and Italy now in the firing line, the outlook for the GBP/EUR is extremely uncertain, resulting in volatile trading conditions. On the one hand, the pound has benefitted from the coalition government's efforts to address our deficit which has safeguarded the UK's AAA credit rating and meant that UK sovereign debt and GBP denominated assets have become an attractive alternative to their European equivalents. This fact, coupled with uncertainty over the future of Europe, has allowed the pound to push as high as €1.1700 in recent weeks with the potential to go higher still should there be evidence of debt crisis contagion to other European nations or should the European Central Bank decide to cut interest rates further.

On the flip side however, UK economic statistics have continued to underwhelm, leading many analysts to predict that the Bank of England may further expand their 'quantitative easing' programme – which will in turn serve to weaken the pound as the Bank floods the market with currency. In these circumstances, should Europe manage to rescue the bail-out agreement reached at the debt summit late last month, a return to support levels around €1.1380 and below cannot be ruled out. The degree of uncertainty is highlighted in the chart below which is a selection of forecasts for the GBP/EUR rate over the next twelve months from some of the world's leading investment banks. With the likes of Barclays and Morgan Stanley predicting €1.2000 by the end of December and the end of March respectively, there are clearly those who feel the rate is likely to head higher. However, contrast these predictions with HSBC and JP Morgan Chase who forecast €1.1500 and €1.1400 over the same period and the risk to your business in not taking action to hedge your risk becomes clear.

GBP/EUR – Quarterly Forecasts



Source: Bloomberg LP

How then should a company with a requirement to sell pounds and buy euro over the next six months protect themselves should the rate fall, but also not preclude the possibility of benefitting should the GBP/EUR rate rise?

■ Trade Ideas

Forward Contract

The traditional hedging tool, which you may already be familiar with, the forward contract allows you to fix a rate of exchange now for a date in the future giving you complete certainty of the rate you will achieve with a large degree of flexibility should you decide that you need the funds earlier or later than you first thought. The only real downside of a forward contract is that there is no possibility of benefitting from any improvement in GBP/EUR between the date you book the trade and the date you take delivery. Nonetheless, Moneycorp's expert dealers will be able to keep you abreast of developments in the markets so that you have the information you need to trade at the right time, making the most of the daily fluctuations in the rate. For the purposes of comparison between a forward contract and the options products described below, you would currently be able to fix a forward rate at around €1.1600; however, we recommend calling one of our dealers for an indicative live rate.

Participating Forward

This type of zero-cost option is a simple and very effective hedging tool. The Participating Forward provides you with full protection against unfavourable movement in the GBP/EUR exchange rate below a known rate while also allowing you to profit, to some extent, from favourable rate movements. The structure consists of buying and selling a vanilla option for the same expiry at the same strike price, but for differing notional values. The extent to which you benefit from upside moves in the underlying spot rate depends on the difference in those values which equates to the contracted "participation rate", normally 50%.

It is currently possible to secure a **worst case rate**, or 'strike price', of €1.1450, with 50% participation in any upside movements, for delivery at the start of each month from January to April. On each 'maturity' date:

- If the GBP/EUR rate is below €1.1450 you have the right, but not an obligation, to buy your euro at €1.1450.
- If the GBP/EUR rate is above €1.1450 at expiry, you would be obliged to buy 50% of the notional EUR value of the option at €1.1450 with the remainder available to trade at the prevailing spot rate, giving you 50% participation in any upside move. For example, if the spot rate was €1.2050, you would buy half at €1.1450 and half at €1.2050 giving a net rate of €1.1750.

Forward Extra

This type of zero-cost option gives you complete protection against unfavourable movements in GBP/EUR with 100% participation in any upside movement as far as a pre-determined barrier. Should the underlying spot rate be trading at or above the barrier level on the day your option matures, you will be obliged to trade the full contract notional amount at the 'worst case' or strike rate.

It is currently possible to secure a **worst case rate**, or 'strike price', of €1.1500 to sell GBP and buy EUR with 100% participation up to a barrier level of €1.2100, for delivery at the start of each month from January to April. At each expiry:

- If the GBP/EUR rate is trading below €1.1500, you will have the right, but not an obligation, to buy your euro at €1.1500.
- If the GBP/EUR rate is trading between €1.1500 and €1.2100, you will be free to trade as much, or as little as desired at the prevailing spot rate.
- If the GBP/EUR rate is trading at or above €1.2100 at expiry, you will be obliged to sell GBP and buy the contract value of your euro at €1.1500.

These are just two examples of currency options that may be suitable products with which to hedge your currency risk. Neither requires the payment of any fee or other associated cost and are available for transactions valued at £50,000 and over. Please call one of our experts on 0800 910 1620 to discuss your requirements in more detail and to determine the right strategy for you.

Foreign exchange options can carry a high level of risk to your capital and are not suitable for everyone. You should seek independent advice if necessary.

TTT Moneycorp Limited is authorised and regulated by the Financial Services Authority for the conduct of designated investment business and the provision of payment services.

Disclaimer

This communication is issued by TTT Moneycorp Limited (Moneycorp) for informational purposes. Unless stated specifically otherwise, this is not a recommendation, offer or solicitation to buy or sell and any prices or quotations contained herein are indicative only and not for valuation purposes. Moneycorp has taken reasonable measures to ensure the accuracy of the information in this communication, however, the information is not guaranteed as to its accuracy, nor is it a complete statement of the financial products or markets referred to. All opinions, news, research, analysis, prices or other information contained in connection with the service are provided as general market commentary and do not constitute investment advice. Opinions expressed are subject to change without notice and may differ or be contrary to the opinions or recommendations of other desks or divisions of Moneycorp. Moneycorp or any Moneycorp member, director, officer or employee may have traded for their own account as principal in instruments identified herein, underwritten an issue within the last 36 months, or have a long or short position in any related instrument mentioned in this communication. You should bear in mind that the value of investments may go up as well as down and you may not get back the amount invested. Past performance of an investment is not necessarily a guide to future performance.

To the extent permitted by law, Moneycorp does not accept any liability for any loss or damage, including, but without limitation to, any loss of profit, which may arise directly or indirectly from use of or reliance on the information in this communication.

This communication is not intended for distribution, or use by, any person in any country where such distribution or use would be contrary to local law or regulation. None of the services or investments referred to in this communication is available to persons residing in any country where the provision of such services or investments would be contrary to local law or regulation. It is the responsibility of the recipient to ascertain the terms of and comply with any local law or regulation to which they are subject.

Moneycorp is a trading name of TTT Moneycorp Limited. Registered in England: No. 738837. Incorporated 1962.