

'Beware nasty foreign exchange surprises'

THE PAST 12 MONTHS HAVE SEEN BIG FLUCTUATIONS IN THE WORLD'S CURRENCY MARKETS AND THE INSTABILITIES ARE LIKELY TO CONTINUE IN THE SHORT TERM, BUT MONEY EXPERT **TOM BARCLAY** SUGGESTS THE RENEWABLE ENERGY SECTOR COULD TAKE STEPS TO PROTECT ITSELF AGAINST FUTURE RISK

Aranging insurance against currency fluctuations is becoming increasingly important for the renewable energy sector – and the UK wind industry in particular – for a number of reasons.

Firstly, most of the key wind turbine components are purchased in Europe. Secondly, ordering of components is done well ahead of the installation date, increasing the long-term risk of euro/sterling fluctuations having a negative impact on the cost of these purchases, writes Mr Barclay, from the UK-based foreign exchange brokers, World First, which has linked up with the CLA to form the CLA foreign exchange services division.

Anyone involved in moving money between countries will need to keep their eye closely peeled on the exchange rates in the months ahead, or contact one of the growing number of companies in the position to be able to help individuals control their levels of risk.

The ease by which this risk can be minimized through a number of simple transactions has transformed € exchange rate insurance from what was an esoteric financial instrument into an approach which is now used by an increasing number of UK developers.

It is worth bearing in mind that movement in the currency market can impact upon your purchase drastically. However, by using exchange rate insurance products you can set a rate now for a transaction happening up to two years ahead, preventing any nasty surprises.

People often think about calling their bank first when looking to move money for international transactions,

but the banks have a limited range of services available and risk management strategies are usually reserved only for the so-called major players by the big banks.

A number of foreign exchange brokers offer forward contracts on currency, claiming they provide protection. But clients often find themselves locked into an exchange rate which does not allow them to benefit if that rate subsequently improves. However, a "currency option" will allow buyers to exchange one currency for another on a future date, protecting them in advance.

'Thinking about ways that I could hedge my bets and protect myself from any potential losses'

For example, after agreeing to buy a wind turbine in Jan 2010, Alun Roberts-Jones, from Pembroke, West Wales, had committed to an investment of £350,000 with the payment due several months later in June.

"Naturally I had started to look at the markets before committing to the purchase," he explains. "I noticed that the rates were prone to significant moves in either direction, and started thinking about ways that I could hedge my bets and protect myself from any potential losses."

His foreign exchange broker advised him that a currency option agreement

Foreign exchange adviser Tom – "movement in the currency market can impact upon your purchase drastically"



would protect him from the rate getting worse, while also allowing him to benefit if the rate improved. He was able to fix a worst case rate of 1.1111, protecting the price of his purchase and ensuring the turbine would not cost more than £315,003 on the day the money was transferred.

This proved a smart move on his part, because between January 5 and June 30 last year, the sterling-euro exchange rate moved from 1.1111 (0.90) up to 1.2121 (0.8250).

At the time the settlement came about the turbine cost £288,755, but it could have been very different. Without the protection of an option if the rate had fallen to as low as, say, 1.05, the whole deal would have ended up costing him £333,333 in total.

There are various foreign exchange brokers to choose from when it comes to finding forward contracts, but for additional peace of mind it helps to use a broker that is authorised and regulated by the Financial Services Authority (FSA). As far as currency options are concerned, the company has to be FSA-authorized and regulated and only a handful of brokers, including World First, are permitted to offer them. ■



For further information about managing your risk email Tom Barclay at tom.barclay@worldfirst.com