BREXIT: THE LAST LEG

Managing the market volatility and uncertainty

Months of campaigning are nearing the final stages before British voters go to the polls to decide if the UK should remain in or leave the European Union. Historically, the UK has been marginally favourable towards EU membership but the most recent polls suggest a shift in opinion, with the 'Vote Leave' campaign gaining the edge. This has tipped sterling volatility to its highest level in more than seven years, a clear sign of market anxiety preceding the vote – and it is likely to become even more volatile, particularly if polls closer to 23 June show an even greater margin for the 'Leave' camp.

Managing the risk

According to a recent Deloitte poll, 83% of CFOs think, "the level of uncertainty facing their business is above normal, high, or very high." This is up from 64% in the last quarter and is at the highest level since Q4 2012. Whilst some businesses have spent time analysing the key vulnerabilities to Brexit and have worked it into their business planning, the same Deloitte poll shows that a significant number of businesses are underprepared for a potential Brexit and some have deliberately steered away from contingency plans. Harald Krueger, the CEO at BMW, told the company's annual meeting that "there is no point speculating about a Plan B" and that should the UK leave the EU, BMW will use the ensuing two-year transition to decide next steps.

Equally, data from the Markit/CIPS survey shows that whilst 35% of businesses said that a potential Brexit was having a strongly detrimental or detrimental impact on income, 51% said it was having no significant effect.

Short term currency volatility

As the spectre of a 'Leave' vote hangs over the FX markets, many corporates will be looking at hedging options to protect assets against currency volatility. However, some trading firms are trying to stop customers making risky trades in the run-up to the referendum in a bid to minimise exposure and reduce volatility following the result.

Firms are planning to limit the amount of leverage offered to customers and increase margin rates in a bid to put a dampener on trading activity, limiting the potential for losses for both customers and businesses in the event of big market swings.

Many businesses are implementing 'no trade windows' in the latter part of June to mitigate the potentially adverse impact from Brexit. In practice, this means that businesses will not undertake FX trades involving sterling (or engage in related commercial trading) due to potential volatility, and will also delay settlement of relevant trades until the window is closed.