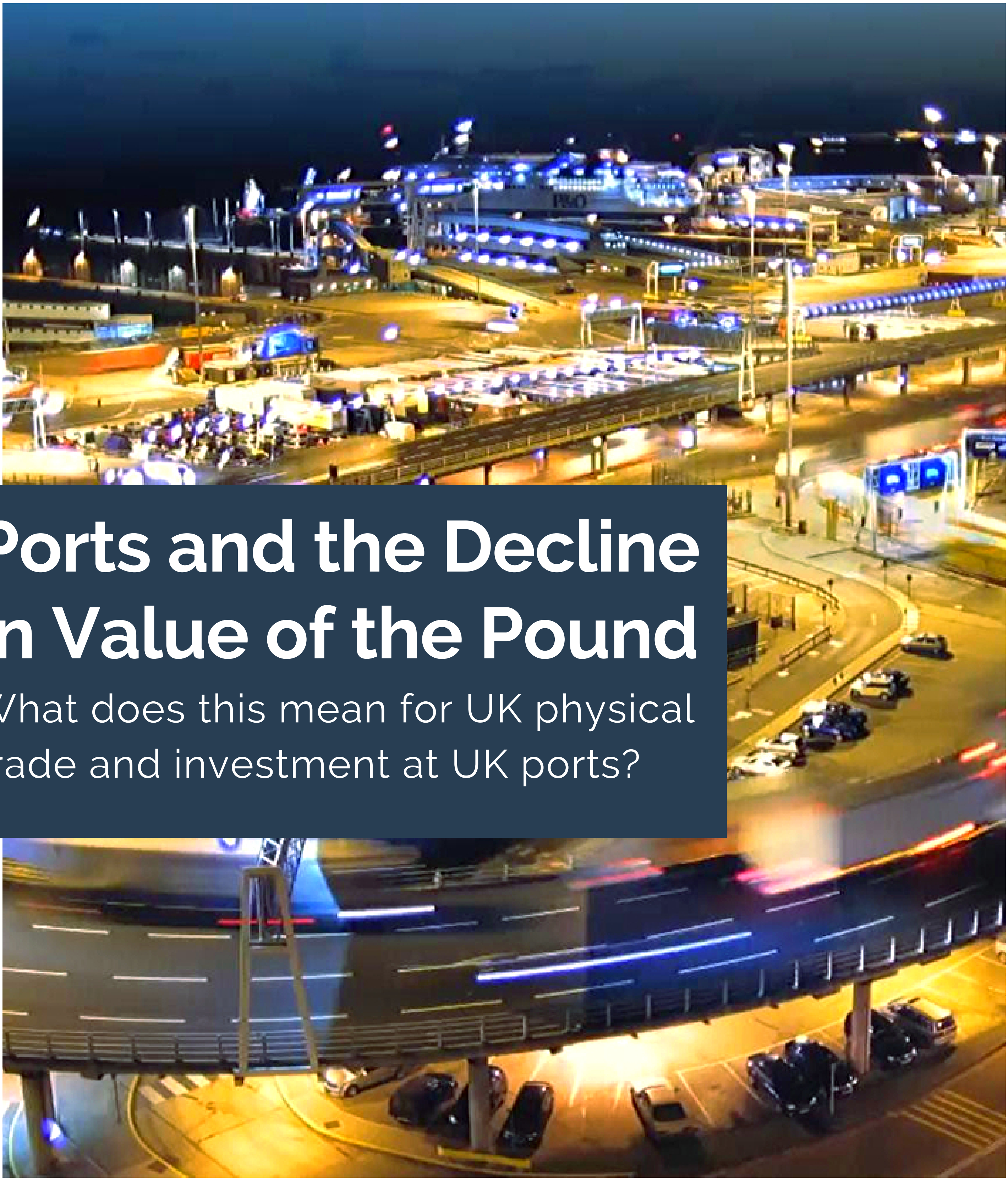

Ports and the Decline in Value of the Pound

What does this mean for UK physical trade and investment at UK ports?

British Ports Association

CURRENCY//UK

FOREWARD

The **British Ports Association** and **Currency//UK** are delighted to collaborate on this report, which explores contingencies of what may happen to the value of the British Pound, and the subsequent impact on trade and investment in our ports, based on the nature of Britain's withdrawal from the European Union. The British Pound has fluctuated significantly since the 2016 EU referendum, so it is important to consider the impact of this uncertainty, and whether UK ports will be better or worse off as a result; a vital consideration when we take account of the £9.7 billion of value that the ports sector brings to the wider UK economy.

The **British Ports Association** (BPA) represents over 100 port members. BPA members own and operate over 350 ports, port facilities and terminals of all sizes across the UK, and their activities range from large cargo handling ports and terminal operators to small leisure ports.

Currency//UK are an organisation who make it easier, safer and more cost-efficient for individuals and businesses to transact abroad in multiple currencies. Minimising the impact of rate fluctuations and simplifying the process both for making and receiving international payments, they provide a faster, more flexible service designed to support any and all types of enterprise, as well as a bank-beating price structure.

Richard Ballantyne
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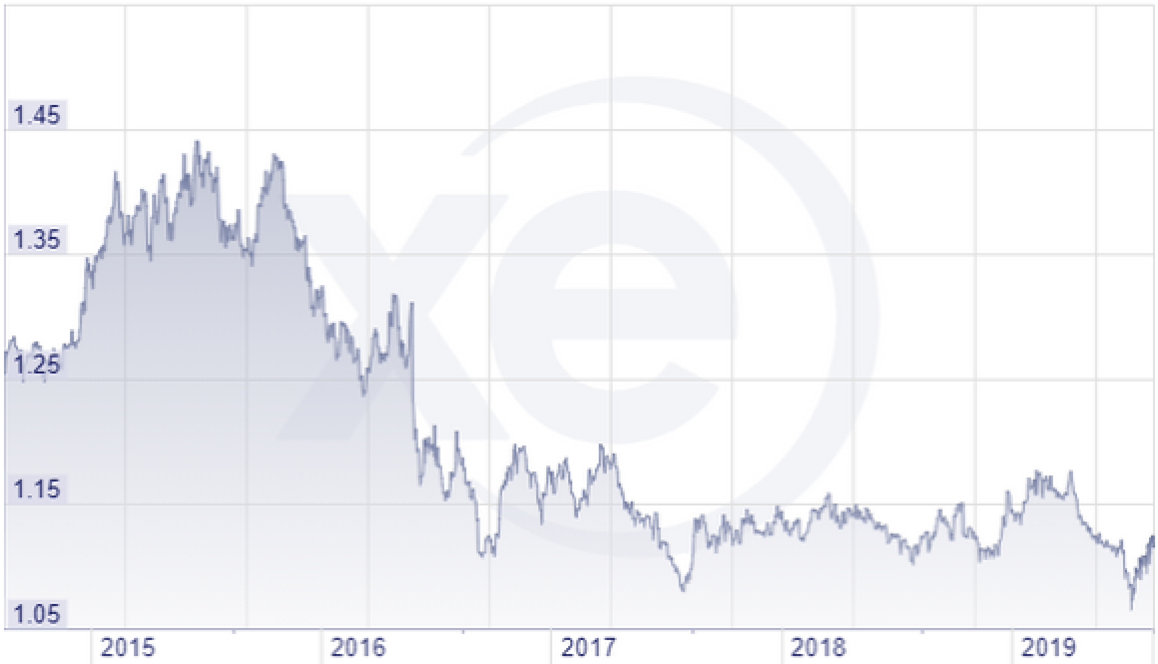
Director of Operations
Currency//UK

INTRODUCTION

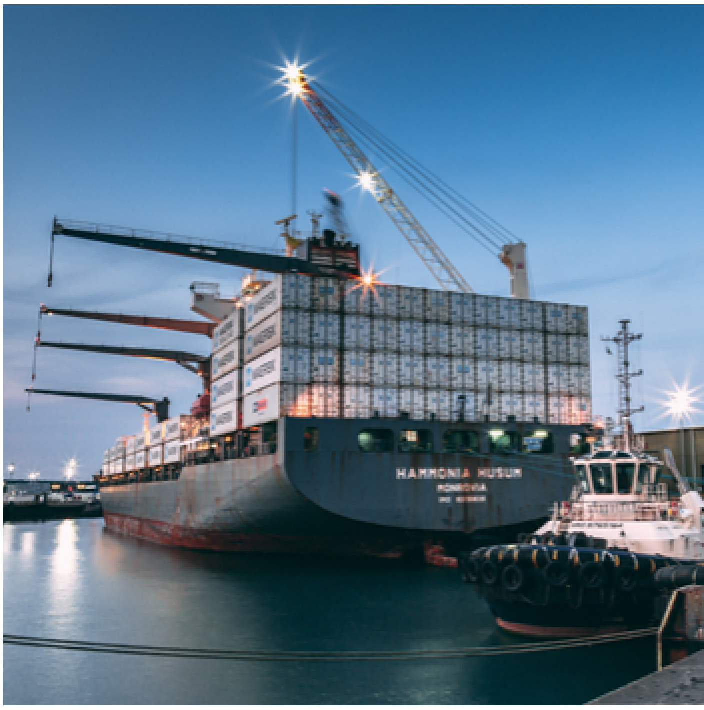
With the possibility of **Brexit** looming, how we will exit the European Union (EU) is still clouded by uncertainty. This means that fluctuations in the value of Pound on the international currency market continues to be a recurring theme. This can represent real opportunities for international investors and currency traders but can also create unpredictability for those in the shipping, freight and ports business, **which facilitate 95% of the UK's physical trade.**



GBPEUR Rate 2015-Sept 2019. Source: XE Currency

It has been well documented that the Pound has suffered substantially over the past two years due to the lack of clarity over how the UK will leave the EU. Prior to the referendum vote, the Pound bought roughly €1.3200 whereas **now the EURGBP rate is sitting around the 1.1000 mark**. These currency fluctuations are expected to continue as political announcements regarding Brexit are made. While the scenario of the UK leaving without a deal appears to be a probable possibility, the UK government is working to find a solution to the Irish backstop in order to reach a deal.

Since the referendum, UK physical trade figures have remained stable and the UK Government has recently forecast consistent and modest growth in seaborne freight out to 2050, however, the lasting impact of Brexit is unknown.

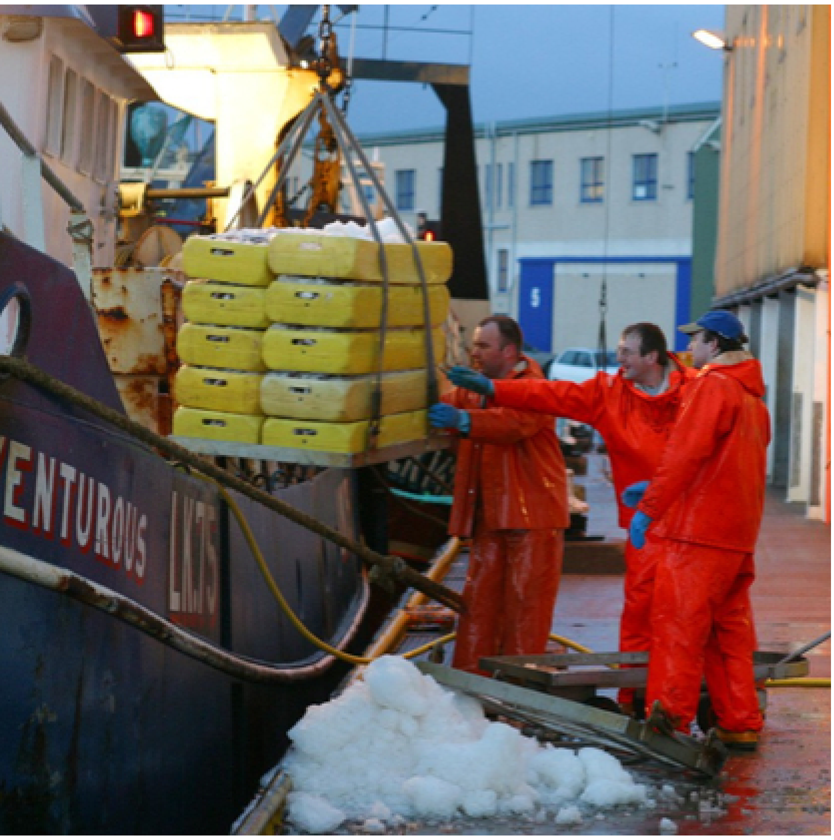


With this in mind, it is important to understand what impact Brexit will have on UK trade, ports and currency. In November 2018 the **Bank of England** produced a report on EU withdrawal scenarios and monetary and financial stability'. In this report, they estimate that a no-deal Brexit without a transition period could result in a 15 per cent reduction in trade by 2023. While it is important to remember that this figure is a prediction based on a worst-case scenario, large fluctuations in exchange rates may follow.

IMPORTS AND EXPORTS

As has been suggested by commentators, in the short term a fall in the value of the Pound could inject an initial **boost into UK exports**. However, for many sectors, this is not so clear. Many of the materials used in UK manufacturing are imported from the EU and beyond and a lower exchange rate will make these components more expensive. This could result in UK manufacturers sourcing from domestic suppliers, which is good for UK businesses on one level but could, in turn, drive down the UK's international trade, making shipping less efficient and more costly.

As the **UK's economy is strongly import driven** any decreases in exchange rate values can increase the costs that businesses and consumers will have to manage. For some traders, the currency fluctuations are more concerning than the prospect of new tariffs on physical trade. While products such as cars manufactured in UK plants could be cheaper for those in the EU to buy, potential new tariffs often 10% of the value of such products, could push prices up substantially.



Also, as soon as the UK leaves the EU, car parts that are imported from other European countries could have tariff costs added to them. A key question is how much of a difference will new tariffs and non-tariff barriers make. Just how detrimental these new tariffs might be is unclear and this is completely dependent on how any new trade deal is negotiated. A key factor is that the UK will be able to explore new bilateral trade agreements with the US as well as growing markets such as Africa, India and South America.

Another threat to UK imports is that a weaker Pound could have an impact on the number of HGV drivers in the UK, on top of the existing shortage. A significant number of lorry drivers in the UK are from European nations and with a dramatic drop in the value of the Pound, working here is becoming less lucrative with regards to the equivalent value in their home currencies. This could be compounded by the UK being a less attractive place to live for EU nationals generally, as uncertainty over EU citizens' continued right to work in the UK remains.

A more positive impact of a lesser value Pound is that more tourism could be driven into the country, as foreign travellers will experience better value for money when exchanging their home currency, which would in turn benefit maritime sectors such as cruise and leisure. This may also mean that less Brits choose to go abroad, leading to a rise in UK-based holidays, which would also likely boost costal tourism.

Also very pertinent to this discussion is commercial fishing activities and landings in ports around the British coast. Typically deep sea fishing vessels look at where they can get the highest market price for the fish they land in the UK and elsewhere as well as other factors such as fuel prices. A lower value of the Pound can therefore sometimes mean it is more sensible to land abroad. If this were ongoing this would not be good for communities and businesses with a strong fishing focus.

ENERGY

As well as trade, there are some other implications sounding a lower value of Sterling for wider parts of the ports and maritime industries. Much of the UK's ports business revolves around **energy production and supply**, such as our **oil, gas and renewable energy markets**. As oil is traded in US$, higher values can mean the exploration of North Sea fields and associated activities becomes more profitable. This, alongside any potential global increase in the barrel price, can lead to more maritime activity for example, in regions such as Northern and Eastern Scotland.

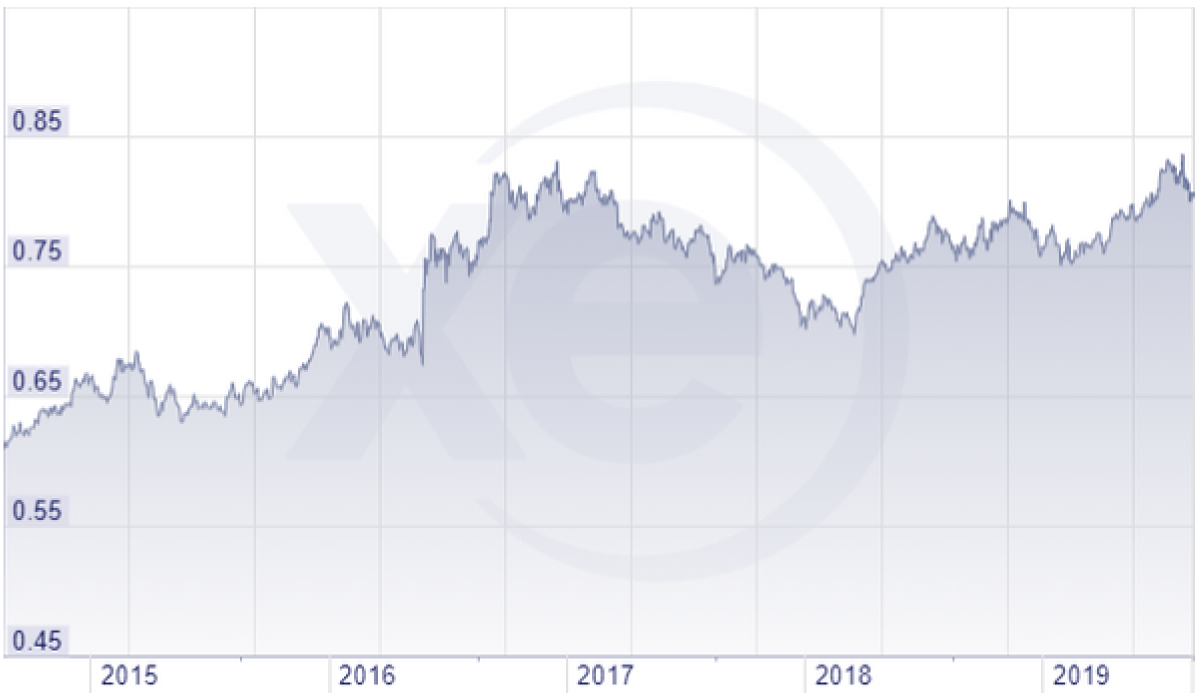
Shipping fuel and bunkering can also be impacted of course as are other maritime-related activities. Equally, the Government's recently announced **Offshore Wind Sector Deal** which sets ambitious targets for the UK to produce 30% of our electricity from wind energy and associated UK 'content' aims could mean further development and private investment in and around ports. The fluctuations in exchange rates and Brexit uncertainty could mean developers hold back on certain schemes.

INFRASTRUCTURE

Last year the British Ports Association undertook a study which found that there was **£1.7bn worth of port infrastructure development projects in the pipeline**. Some of this will be provided by international investors and they will, of course, take into consideration the strength of the Pound compared to other currencies. Therefore a lower value of the Pound might make investments more likely.

CURRENCY FORECASTING

Exactly how strong Sterling will be compared to other currencies after Brexit, particularly the **Euro** and the **Dollar** is unknown. This is reflected when looking at forecasts for the exchange rate in the next quarter, by which time we are likely to have left the EU. **Barclays**, for example, estimates that the GBPUSD rate will be 1.2400 whereas **Dukascopy Bank's** estimate is much lower at 1.1450.



USDGBP Rate 2015-Sept 2019. Source: XE Currency

When taking an average of estimates made by the banks an FX experts the rate is 1.2274. When looking at estimates as to how the Pound will fare against the Euro, taking the average rate from estimates from banks such as **Barclays, Lloyds and Danske** the EURGBP in the next quarter will be 0.9033. These figures are similar to where the exchange rates currently sit showing that even banks aren’t sure which way the rate will go and as an average, are opting to remain cautious with their predictions.

The FX markets are often regarded as the most reactive and transparent interpretation of global opinion on economic, and geopolitical events. As such, historical exchange rates can provide context and benchmarks for current and future events. Comparing current fx rates to historic fx rates can thus give us an idea of the impact of a given situation.

Using this rationale we can compare GBPs current relative value (against a number of other currencies) compared to its past relative value (against the same currencies). This is best done using what is often referred to as the 'real effective exchange rate' as it means localised currency trends can be excluded from the comparison. If you were to simply compared GBP/USD over the last decade, for example, it will not give a fair comparison of GBPs relative strength or weakness because of events impacting USD only such as a change of president or a change in the Federal Reserve’s interest rate trajectory.

Comparing the last decade of GBPs effective exchange rate we can quickly see several key points in time.

- In mid-2007 GBP was arguably at its peak.
- By Dec 2008 the financial crisis had hit the UK (and the rest of the world) - GBP had lost nearly 30% of its value.
- By Autumn of 2015, the effects of the recession were subsiding and sterling had clawed back just over half of its loss, rising 16% since the depths of the financial crisis.
- Roll forward to July 2019, GBP fell to its lowest level in data history, Circa 4% lower than in the depths of the financial crisis.

This is only one of many ways of considering the impact of Brexit on GBP but to summarise with 'worse than the financial crisis' is both justifiable and sobering.

CONCLUSION

With currency fluctuations likely to occur over the coming months and even years, as the UK breaks away from the EU, it is important that businesses who deal with frequent international payments have a strategy in place. Foreign exchange experts, such as **Currency UK** can be a crucial partner for your business to have and can help you to mitigate the risk of currency volatility, ultimately protecting your bottom line.

What might change however is the complex purchasing patterns of UK manufacturers and businesses, international business streams and foreign investment in the UK and currency could be a prominent factor.

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