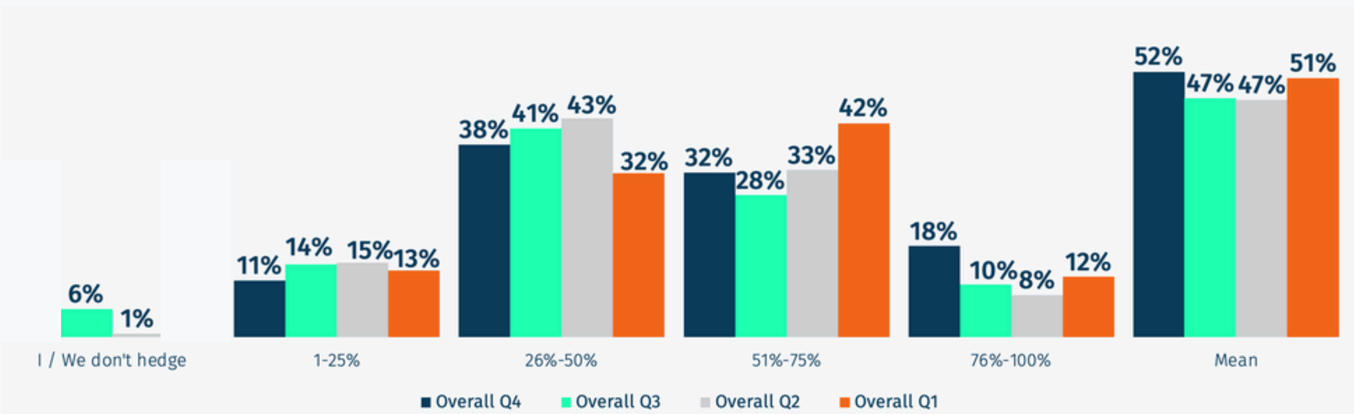
MillTechFX
by Millennium Global

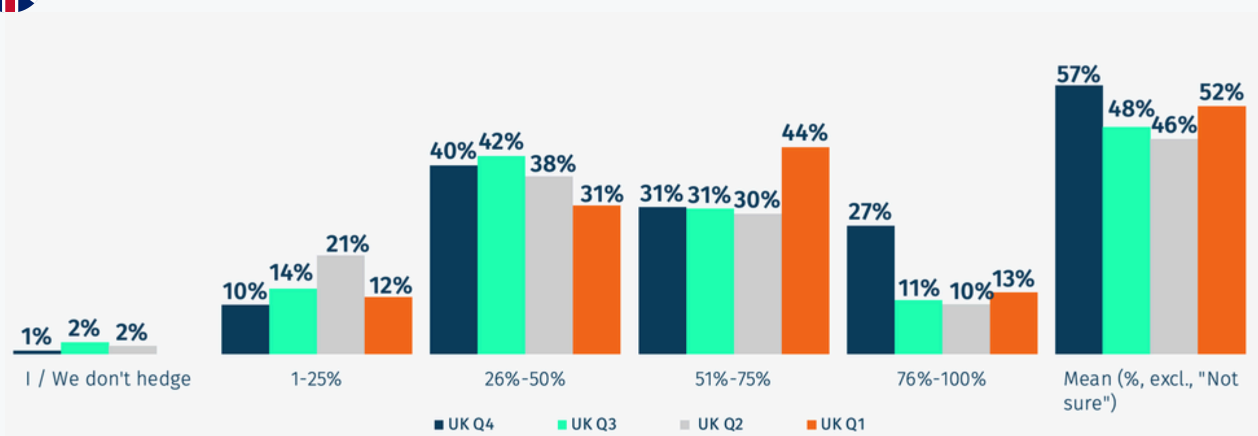
THE MILLTECHFX QUARTERLY CORPORATE HEDGING MONITOR – Q4 2024

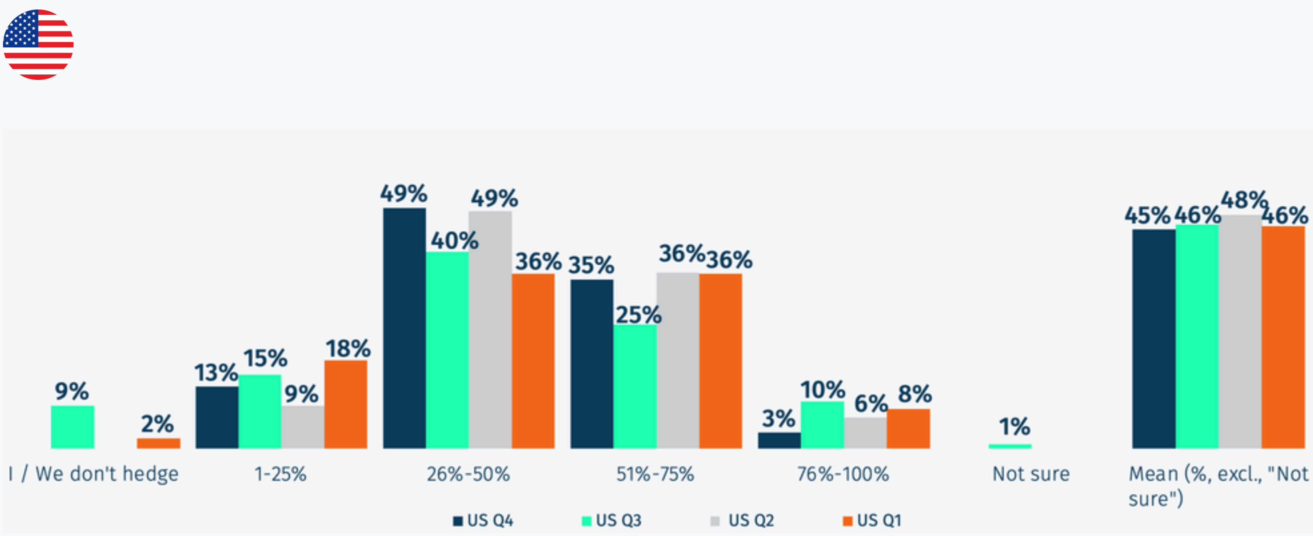
Key findings:

- Over three quarters (76%) of corporates experienced losses from their unhedged FX risk in 2024
- The most popular hedging strategy adjustments set to be made this year due to high volatility in 2024 are buying more options, increasing hedge lengths and changing banking providers.
- The biggest external factor influencing hedging decisions for both the US and the UK was credit availability, suggesting a continuation of the credit crunch from lenders.
- Both UK and US corporates decreased their hedge lengths in Q4 compared to Q3 2024 – the overall hedge length shrank from 6.86 months to 6.47 months.
- Both UK and US corporates increased hedge ratios in Q4 compared with Q3 2024 – the overall hedge ratio rose from 47% to 52%.

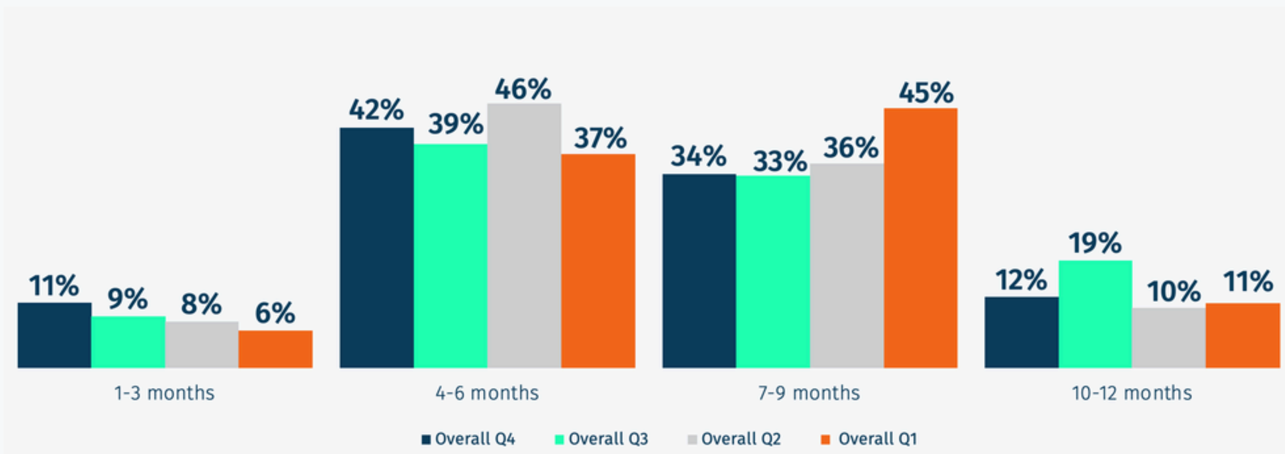
What is your current hedge ratio?



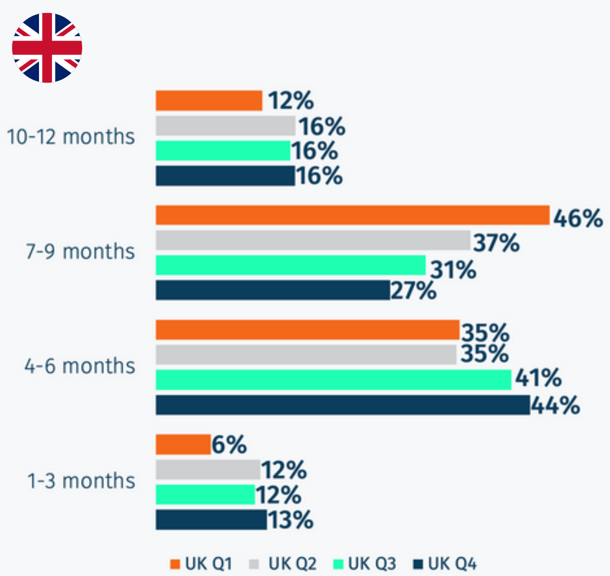




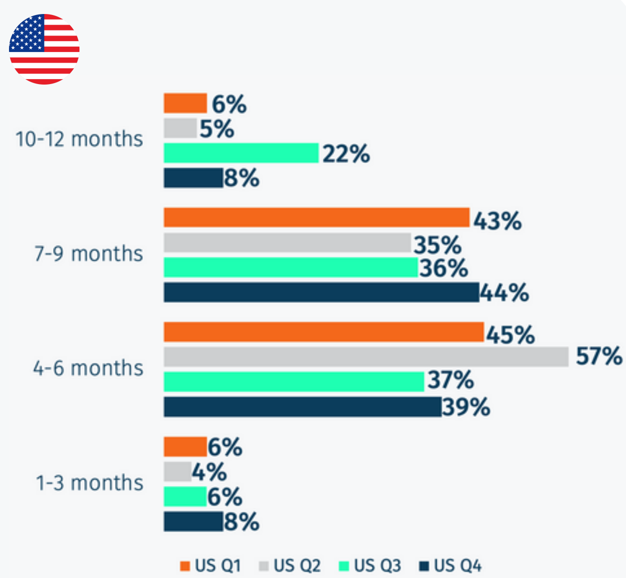
How far out, on average, do you currently hedge FX risk? Respondents that hedge



Mean (months, excl., "N/A / Unsure"): **Q4 6.47, Q3 6.86, Q2 6.45, Q3 6.84**

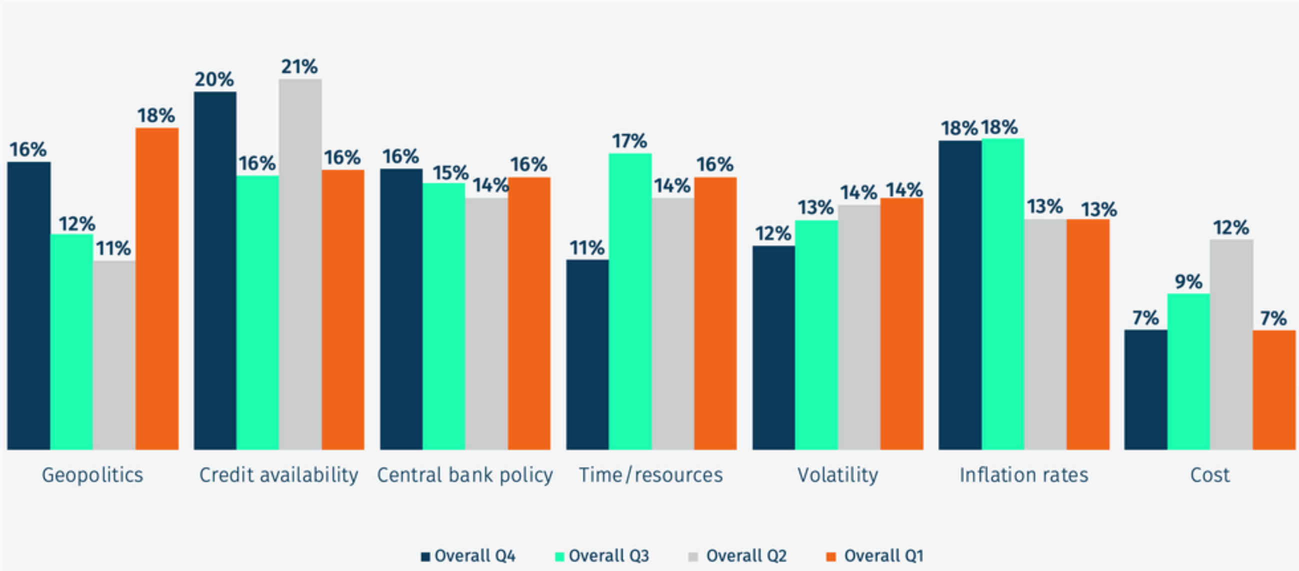


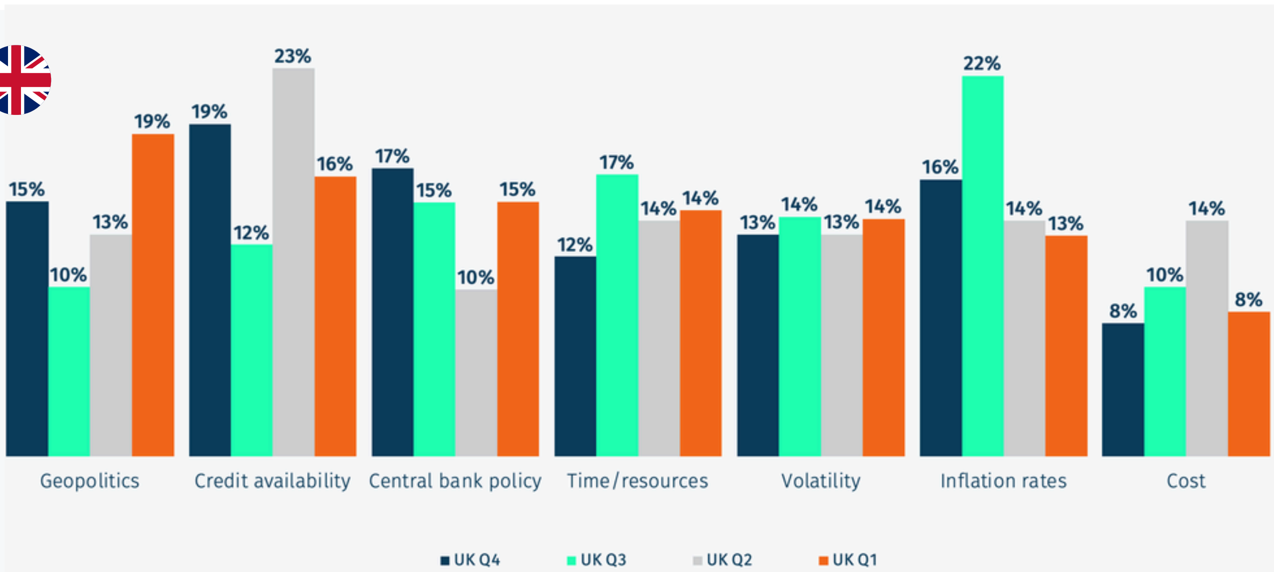
Mean (months, excl., "N/A / Unsure"): **Q4 6.40, Q3 6.54, Q2 6.71, Q1 6.93**

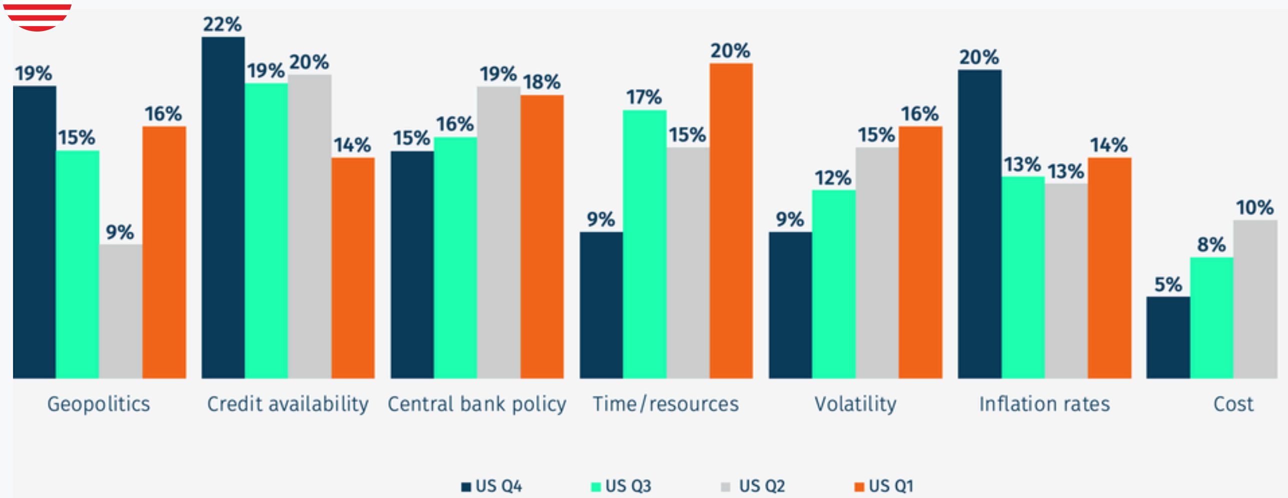


Mean (months, excl., "N/A / Unsure"): Q4 6.58, **Q3 7.19 ,Q2 6.20, Q1 6.47**

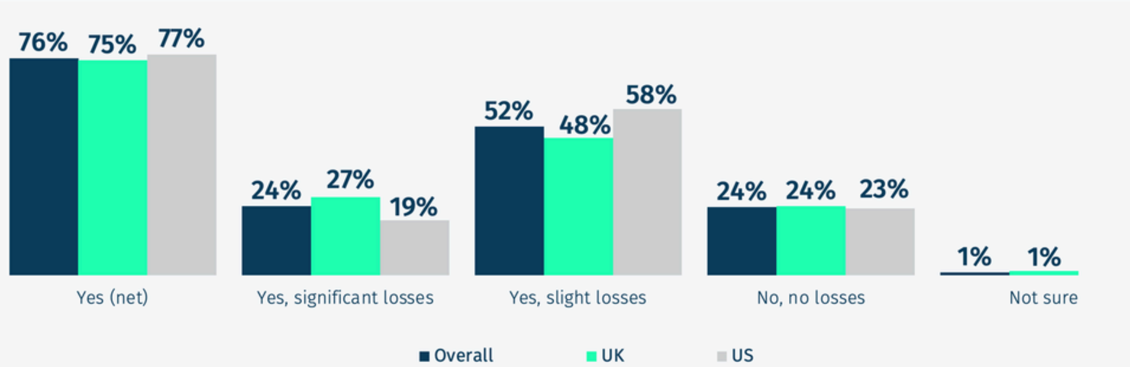
In Q4 2024, what, if anything, was the biggest external factor influencing your FX hedging decisions?



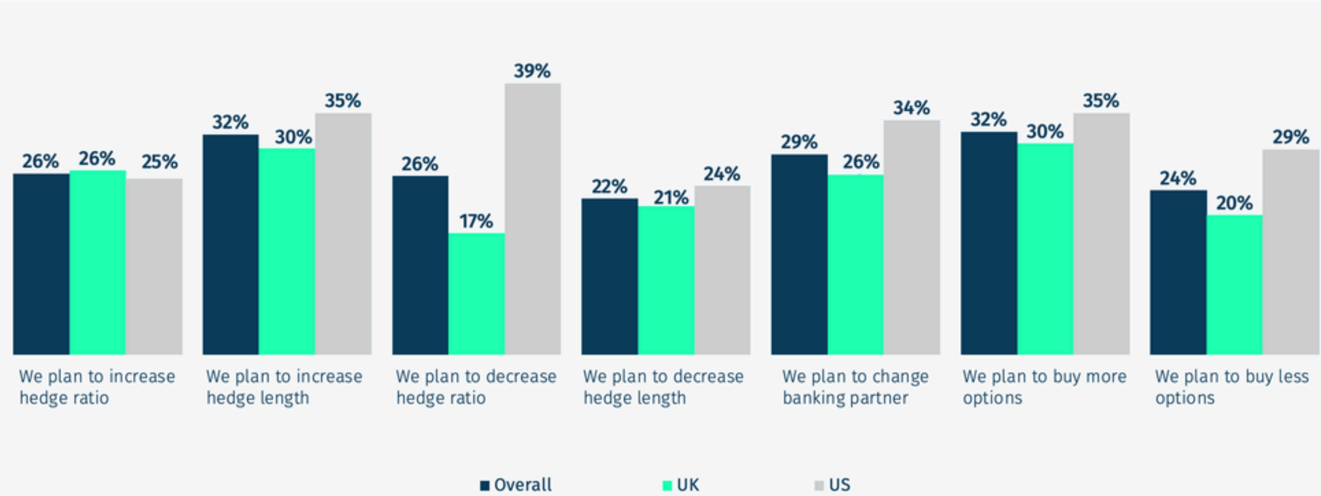




Did you experience losses from your unhedged FX risk in 2024?



Given increased volatility last year, how do you plan on adjusting your hedging strategies in 2025?



ANALYSIS

The final quarter of 2024, saw some key moments unfold for global currency markets, particularly in the US and the UK, setting the stage for 2025. Trump's election saw the US Dollar Index (DXY) strengthen by roughly 10%, climbing from just above 100 to as high as over 110.

Q4 was also a very eventful period for the British pound, given that it had previously neared its highest point in over two years against both the dollar and euro. However, its value against these currencies then dropped significantly early in Q4, in what appears to be the aftermath of struggling business confidence due to the Chancellor's budget. After recovering slightly, the pound's value against the dollar then dropped again to new lows for the year, as inflated borrowing costs and the threat of US tariffs shook its confidence.

All this resulted in boosted levels of volatility in Q4, as the volatility index (VIX) climbed steadily from around 8 points to 8.75 points, hinting at more troubled waters to come in the year ahead.

This higher volatility caused a headache for corporates who had unhedged FX risk, leaving them unprotected with 76% experiencing losses. This also led to a significant change in hedging strategies. Buying more FX options and increasing hedge lengths were the most popular adjustments, showing businesses' desire for more protection and flexibility.

The risk of unexpected and sharp exchange rate movements increases uncertainty in the market. Through buying FX options, corporates pay for a flexible way to manage this uncertainty while still allowing themselves to benefit if exchange rates move in their favour. In a similar vein, extending hedging lengths enables businesses to lock-in protection against adverse currency movements for longer.

For this reason, it comes as no surprise that hedge lengths remained high as Q4 came to an end, with an average of 6.47 months across the UK and US. Hedge ratios also increased in Q4, growing to 52% across both markets from 47% in Q3. This growth was driven mainly by increases in the UK's hedge ratios, moving from 48% to nearly 57%, showing a higher desire to protect a greater portion of their risk, likely in response to economic uncertainty and the threat of US tariffs.

The most important factor influencing hedging decisions overall was credit availability, pointing to an intensification of the credit crunch we've witnessed throughout 2024. Tightening lending criteria and more expensive borrowing costs are a common feature of turbulent economic times. This tends to cause liquidity headaches and restrict investment opportunities.

As we head further into 2025, those hoping for respite from currency volatility are likely to be disappointed. FX volatility looks likely to continue as President Trump embarks upon his first round of tariffs, despite Canada and Mexico narrowly avoiding them for now. These shifts in US economic policy from are set to continue reverberating through currency markets, supporting volatility. For corporates, this will likely mean further changes in FX risk management strategy, causing particular stress for those who don't hedge their FX risk.

Eric Huttman, CEO of MillTechFX

About The MillTechFX Quarterly Hedging Monitor

The MillTechFX Quarterly Hedging Monitor research shares the findings from a quarterly survey of 250 senior finance decision-makers* at UK and US corporates (described as those who have a market cap of $50mil up to $1 billion) to provide a snapshot of corporate hedging activity and insight into influential factors and other key trends. The data in this report is from a survey conducted between 14th and 27th of January 2025.

MillTechFX is an FX-as-a-Service (FXaaS) pioneer that enables corporates to access multi-bank FX rates via an independent marketplace. To speak to us directly please reach out to our sales team on bd@milltechfx.com or +44 20 8164 1200.

DISCLAIMERS

*The full list of job titles surveyed and included within this report is as follows: Accountants, Chief Financial Officers (CFO) Financial Analysts, Financial Accountants, Financial Consultants, Financial Manager, Analysis Managers and Treasurers.

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