Corporates hamstrung in response to FX volatility

Restrictions around hedging programmes leave US firms struggling to adapt to dollar weakness

By Cole Lipsky
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US corporates are having a hard time responding to increased currency volatility as internal restrictions around hedging programmes make it difficult for them to react quickly to the shifting strength of the dollar.

Heightened foreign exchange volatility, driven in particular by President Donald Trump's chaotic tariff announcements, has seen the dollar weaken and made it difficult for corporates to forecast future cashflows from foreign earnings or imports. Treasurers, however, lack the flexibility to respond to these changing market dynamics and amend hedges that were put on at the beginning of the year.

"Corporates tend to have hedging prescriptions based on board policies and best practice, paired with the fact that market narratives are flipping so quickly that it is tough for non-market-following people to keep up," says Chris Wall, head of corporate FX and rates for the Americas and global head of FX structuring at Deutsche Bank.

Wall adds that the shortening of market risk cycles has made it difficult for corporates to find the best time for market entry when adjusting their hedge positioning.

At the start of 2025, expectations of tariffs on imports from Canada, China, Europe and Mexico on 'day one' of the new US administration led to a sharp rally in the dollar and **fuelled corporate hedging** activity. Many chief financial officers had also been **pressed** on the impact of these FX movements on foreign revenues.

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> **Abhishek Sachdev, Vedanta Hedging**

But since the end of January, the euro appreciated from 1.035 to around 1.075 against the dollar, before hitting 1.094 on March 18 on the back of new fiscal policies from Germany and a change in market sentiment towards so-called US exceptionalism.

Higher FX vol has also meant that buying protection through options has become more expensive.

Following the shift towards a weaker dollar, US-based importers buying goods in foreign currencies will face higher FX conversion costs.

"Volatility is going to continue to impact their bottom line. Companies that are hedged against the local currency depreciation and expect the USD to stay strong are going to be impacted if it continues to go the other way," says Tom Gavaghan, senior vice-president of product solutions and strategy at corporate treasury software provider Kyriba.

Yet corporate clients are often bound by tighter constraints than, say, a hedge fund, as decisions around hedging must go through several boardlevel approvals.

“It is difficult for corporates to react in an agile way if they have an inflexible hedging policy,” says Abhishek Sachdev, chief executive of Vedanta Hedging.

Some treasurers may also be less flexible or sophisticated in the amount of risk they are willing to hedge.

“Treasurers are very much experienced, but they are often hostage to their most recent experience,” adds Sachdev. “They might think, ‘Oh, we’ve always done it this way and I’ve always just done forwards.’ So, they tend to be quite resistant to change.”

Additionally, the underlying factors driving corporate hedging decisions are very different to those for institutional investors, as many treasurers often put on hedges in anticipation of their cashflows and their budget for the financial year.

But the challenge for companies lies in predicting their future cashflows in such a volatile environment.

“Treasurers look to hedge balance sheet and forecasted cashflows, but forecasting the cashflow itself is harder,” says Fateh Madani, regional head of e-FX sales and solutions for the Americas at Citi.

Automated tools could help treasurers to forecast future cashflows and proactively adjust their balance sheet hedging needs. Madani says Citi is working with corporate clients to make these workflows more efficient.

“What we are seeing is an increasing focus into more automation efficiency to reduce risks. Not just market risk, but also information security risks, errors in settlement, better reconciliation, and that is a very big topic for us,” he says.

Kyriba’s Gavaghan says the first step towards corporates becoming nimbler involves making better use of data and back-end capabilities.

"Reactivity can be elevated with the proper technology, because you can see [things] better in advance and then execute accordingly," he says.

"It's not just about exposure against derivatives, position or policy. There are lots of other indicators and data that you would really want to have at your fingertips to help ascertain the next move."

On a roll

Some corporates have been able to adjust their hedging strategies, such as shifting from forwards with one-year and 15-month tenors to rolling three-month trades in response to uncertainty around long-term factors.

"We've seen a reduction in longer-dated hedging activity. Part of that is the fact that all these uncertain factors mean it's very difficult to look ahead three, six, nine or 12 months. Clients are now doing shorter-term hedges and rolling them more often, like a three-month rolling hedge as opposed to 12 or 15 months," says Vedanta's Sachdev.

Kyriba's Gavaghan agrees that those corporates able to monitor their current and future exposures are in a better position to modify their trades accordingly.

"If you're executing in accordance with a policy, then there is no question you're going to be able to better navigate that, to unwind those longer-dated positions and bring your positions in closer. This will allow you to navigate what you have in the short-term storm before the waves settle a little bit, perhaps in the latter half of this year," he says.

Editing by Joe Parsons