

# Don't Hedge on Emotions

Hedging emotionally can lead to significant losses. I've seen it firsthand.



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## Let's start with an example

A Finance Director has a budget rate of 1.3000 on GBPUSD for 2026 USD purchases.

They've been too busy to sort out the FX and the market slips to 1.2950 interbank. It's Friday morning, and Non-Farm Payrolls are out in three hours. They place an order at 1.3000 to hedge 2026 exposure not because they know the market will rise, but because they hope it does.

The data drops, and so does the market, to 1.2810. Rather than bite the bullet, they wait to see what happens on Monday. Over the weekend, news spooks the markets. By 9 a.m, USD strengthens to 1.2650.

Like a gambler chasing losses, that initial 50 pip miss becomes a 350 pip hole against budget. Panic sets in. The FD starts considering high-risk options, knockouts, leverage, anything to try to dig them out of a hole. Now the company's layered in complexity, volatility, and 12 months of stress.

A 3% hit conversation with the board is a very different conversation than a 0.35% hit.

I saw this scenario play out many times. Emotions take over. The decision maker lets what they want to happen dictate what they do. It can cost millions and quickly.

They doubled down at the roulette table. Twice. And lost both times.

## The solution

The best-performing companies I've worked with get ahead of the market.

They set a realistic budget rate, typically with a 1-3% buffer from spot and explore the products that can deliver it. Then they execute. That day. Often with a layered approach.

No waiting around. No messing about. Just get it booked while above budget because this is a live market that can move against you fast.

The decision makers with the least stress have a policy signed off by the board and they execute that strategy. If it's board approved, there are no awkward conversations later:

"Why did you book that?"

"We're 6 cents away from spot, why did you hedge 100%?"

And if you're not going to hedge immediately, at least run the numbers.

What does a 5% drop in a week do to your profitability?

If you haven't modelled it, you're unprepared and unprepared people make poor decisions.

Never assume the market will move in your favour just because you want it to. FX markets can turn on a tweet or a single data release.

# Red Flags

## I used to hear

“I’m going to wait until the market gets back to 1.30.”

(I must find where these people buy their crystal balls.)

“It was 2 cents higher a couple of days ago, I think I’ll see if it gets back there.”

(It was also 12 cents lower nine weeks ago.)

“On Friday afternoon sterling always seems to rally, that’s when I’ll hedge.”

(Yes, people actually used to say this to me.)

“Could I hit my budget rate if I put a knockout in the deal?”

(Just take the 2 cent loss. If it drops below the knockout, you’re buying at spot, 7 cents off budget.)

“How about a knockout and 50% leverage?”

(You’re now overcommitted and exposed.)

“Yes, we set our budget rate this morning for next year, but I’m completely snowed and won’t be able to look at this for two weeks.”

(No problem, I’ll tell Trump to lay off the tweets until you’re less snowed.)

### Negotiation tip

When a FD, Treasurer, or CFO approached someone on my team without a clear game plan, we noticed.

If someone doesn't know how much they want to hedge, how long for, or what their risk appetite is, what are the chances they're checking the rates we're quoting?

