Euro – US dollar

2015 Quarterly Forecast

April – June 2015

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In this forecast:

- Review of Eurozone and US economies
- Looking ahead to the rest of 2015
- Currency forecast for Euro – US Dollar

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CURRENCY BUSINESS

Introduction

Political and economic uncertainties continued to affect currency markets in the first quarter of 2015, from Greece's attempts to renegotiate its debt, to the question of when the US central bank will raise key interest rates. This report indicates the key economic factors that could affect the euro and US dollar, and shows how important currency costs can be to a business, by demonstrating how wide-ranging forecasts are, as well as how they can affect a business's bottom line.

In brief: Jan – March 2015

2015 EUR/USD Rates			
Month	**Average**	**High**	**Low**
January	1.1698	1.1882	1.1478
February	1.1351	1.1449	1.1208
March	1.0840	1.1191	1.0493
Year	**1.1283**	**1.2142**	**1.0493**

Eurozone – QE commences, but is it enough?

The euro began the previous quarter with **political and economic uncertainty in Greece** taking centre stage. Greek anti-austerity party Syriza was expected to win snap elections on 25th January based on its promise to renegotiate its debt or exit the Eurozone. Neither has yet come to pass, although the financial problems suffered by Greece, one of the region's least economically successful states, continued to plague the nineteen-country bloc for the rest of the quarter.

The Eurozone economy on the whole continued to weaken in the previous quarter, **with deflation deepening in January amid a global slowdown in inflation**, with light relief in the region in March. The euro fell to 11-year lows against the US dollar and seven-year lows against sterling as it continued to suffer from the Eurozone's economic ills.

The biggest boost for the Eurozone materialised in the form of the **European Central Bank (ECB)'s quantitative easing (QE) programme**. Announced in January, the plan is to inject €60 billion per month into the economy. This commenced in March, with the ECB planning to purchase more than €1 trillion in assets in its attempt to boost the Eurozone economy and push inflation up to the central bank's target of just under 2%. As yet, it is still too early to conclude the effects of QE in rejuvenating the economy and helping to ease deflationary pressures.

US – Star performer hits obstacles

Following a winter of low productivity in 2013/2014, the US recouped its losses in the latter half of 2014, finishing the year on a strong note. **The US dollar has continued as a star performer in currency markets in the first quarter of 2015,** enjoying its safe haven status amidst the fallout from the Ukraine crisis, and the unexpected move by the Swiss National Bank to abolish its euro peg in January.

Investors continued to question the timing for the US Federal Reserve's potential increasing of interest rates. Sitting at its current low of 0.25%, this could move, but that would accelerate the strengthening of the US dollar, which is already hampering US exports. A slow winter once again slowed US economic productivity in the last quarter – although not to the extent experienced last year – lessening the chances of an imminent interest rate hike.

Although the Federal Reserve views a range of economic indicators to help determine its timing for interest rate rises, **unemployment is still a major concern in central bank Chair Janet Yellen's tenure.** The unemployment rate remained at 5.5% in March, as expected, but reports show that the economy only added 126,000 jobs in the same month, less than the 245,000 expected. The sluggish recovery in the unemployment market is expected to continue to cause circumspection in the decision to raise interest rates.

Looking ahead to the rest of 2015

Key economic factors that could affect the Eurozone economy for the remainder of 2015

- **Greece**
  Fresh from its first quarter of ruling, anti-austerity party Syriza's inability to negotiate a practical bailout deal has Greece hovering close to bankruptcy.
- **Other General Elections**
  General Elections in other Eurozone states this year – such as Portugal and Spain – could also have significant ramifications on the Eurozone economy on the whole in 2015.
- **QE**
  It remains to be seen if the ECB's QE programme – which commenced in March – will have the desired effect of rejuvenating the Eurozone economy and battling deflation.
- **Stagflation**
  Should inflation levels improve, the Eurozone economy also has the potential to slip into stagflation if economic growth does not follow suit.
- **Disparity**
  Some individual members are performing better than others. Germany, the Eurozone's powerhouse, continues to lead the way and hold the bloc's purse strings.
- **Negative interest rates**
  Negative interest rates look set to hold firm in 2015.
- **Export policy**
  It is possible that the ECB may continue to push policies to weaken the euro, in order to boost Eurozone export competitiveness.

Key economic factors that could affect the US economy for the remainder of 2015

- **Unemployment**
  Although US unemployment is improving, the overall level remains stagnant, prompting fears that an unemployment-led recovery is slower than expected. Investors should watch the US unemployment rate closely.
- **Interest rates**
  Although the US economy is outperforming those of its major peers, a number of factors – as outlined above – still reign the central bank in from attempting to increase interest rates too soon. Some commentators wonder if the US will be able to raise interest rates in 2015.
- **Dollar strength**
  The dollar looks set to continue to strengthen in 2015, benefitting in particular from global risk and its status as a safe-haven currency. However, experience has shown us that currency markets are very susceptible to unexpected changes in the economic landscape.
- **Exports to suffer**
  Dollar strength could continue to hamper US export competitiveness, as a stronger dollar makes US goods more expensive for overseas buyers to purchase. This could have a profound impact on the US's position as a prime global manufacturer, particularly with China snapping on its heels.

Currency forecast

2015 Major Bank Forecasts – EUR/USD				
Institute	**1 Month**	**3 Months**	**6 Months**	**12 Months**
Barclays Bank	1.0800	1.0500	1.0000	0.9500
HSBC	1.0500	1.0100	1.0500	1.0700
Lloyds Bank	1.0700	1.0500	1.0200	1.1000
Morgan Stanley	1.0800	1.0800	–	1.0300
Nomura	1.0800	1.0800	–	1.0500
RBS	1.0500	1.0200	1.0000	0.9500
Scotiabank	1.0900	1.1000	1.0800	1.0500
Median	1.0725	1.0500	1.0400	1.0350
Minimum	1.0300	0.9700	0.9500	0.9200
Maximum	1.1100	1.1400	1.1700	1.2000
Reuters SmartEstimate®*	**1.0711**	**1.0485**	**1.0389**	**1.0334**

*Reuters Smart Estimate by StarMine, a division of Thomson Reuters

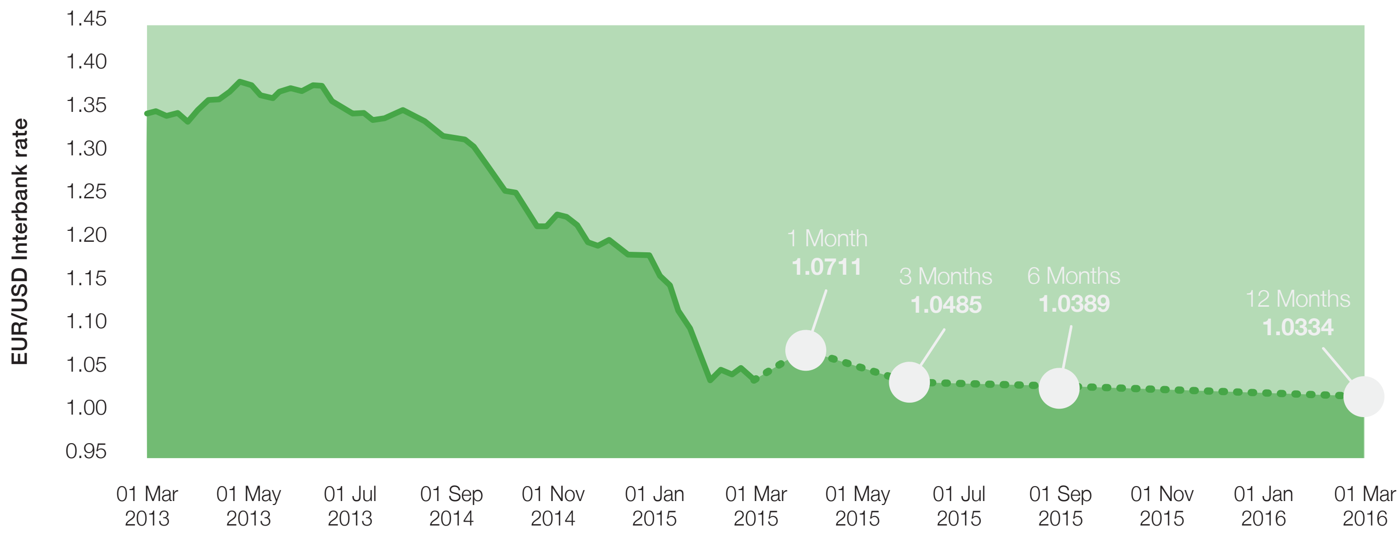
Source: **Reuters**

Forecast accurate from 16th April 2014. Data taken from Reuters' poll.

Forecast chart

Predicting currency movements is not an exact science. Forecasts from major financial institutions for the EUR/USD rate vary dramatically, with a predicted median of €1/$1.0350 in twelve months' time. There is also a marked difference between the minimum rate of €1/$0.9200 and maximum rate of €1/$1.2000 listed by the banks. This means that for every $1 million changed to euro, you could be over €250,000 better or worse off!

EUR/USD – 12 month forecast



Forecast accurate from 16th April 2014. Data taken from Reuters' poll.

About us

Smart Currency Business is a recognised expert in international money transfers, providing UK companies with tailored currency exchange services. We offer dedicated guidance on a range of options to mitigate risk and save money on international transfers and payments. These include commission-free, bespoke solutions to get competitive exchange rates on the day, reserve favourable rates for future purchase, or to secure upper and lower limits on rate purchases in advance.

Shortlisted in the Best International Solutions Provider category at the Business Moneyfacts Awards 2015, Smart Currency Business is passionate about educating businesses, and regularly provide news, insights and guides.

Get in touch

020 7898 0500

info@smartcurrencybusiness.com

smartcurrencybusiness.com

@smartcbusiness

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