

SMART CURRENCY BUSINESS

# WEIGHING ANCHOR ON RATES: ARE CENTRAL BANKS READY TO KICKSTART THEIR ECONOMIES?

## QUARTERLY FORECAST APRIL – JUNE 2024

WHICH CENTRAL BANK WILL CUT RATES FIRST?  
HOW SHIPPING AND THE SEA ARE RESHAPING THE WORLD  
LEADING BANK PREDICTIONS FOR MAJOR CURRENCIES  
ELECTIONS AND GEOPOLITICS LURK AS RISKS



Nominated finalists in the following category at the 2023 Business Moneyfacts Awards:

✓ Best Business FX Provider

# NOTE FROM THE MANAGING DIRECTOR

The year is only a few months old and we've already seen key events play out on an endless loop. To corrupt a famous line slightly, history tends to happen gradually and then suddenly. We're in one of those sudden years, it would appear.

The theme of this edition is nautical, something we feel is apt given geopolitical threats and economic anchors have converged. On the economic side, the question is when central banks will cast off the metaphorical tether of interest rates. In geopolitics, whether it's shipping lanes or troubled passages of water, all eyes are on the sea.

These might seem very distant concerns. In reality, they have a substantial impact on the pounds and pence in your budget. Events in faraway lands, the interest rate environment and even a couple of narrow shipping lanes could cause the cost of your next transaction to skyrocket.

There's an entire industry of highly educated financial commentators out there who claim they can predict where rates will move. We'll let you in on a secret: they can't. Currency markets are by their very nature irrational and prone to extended bouts of volatility. That means we can only offer a range of outcomes and urge you to let us help manage your risk.

With this being our 20<sup>th</sup> year in business, it's a good time to take stock of how far we've come and our plans for the future. This company was founded after we witnessed too many transactions fall foul of currency volatility. Often, we find people lack the infrastructure and insight to protect themselves from movements in exchange rates. That's where we come in, adding value with our experience, currency know-how and our commitment to safeguarding your budget.



So, what do the next two decades have in store for us? We remain laser-focused on providing value for our clients, whether that's through developing new technology or using our wealth of experience to shield you from currency swings. The world is an uncertain place, but one thing you can be sure of is that we'll be here, fighting in your corner.

**Alex Bennett, Managing Director, Smart Currency Business**

## WHERE WILL RATES BE BY JUNE 2024?

Rate predictions for the end of quarter two of 2024 and the possible impact on your budget. If you were changing £1 million for USD the predictions carry a disparity of \$60,000 and for EUR a disparity of €50,000.

CURRENCY PAIRING	MIN. RATE	MAX. RATE	AMOUNT CHANGED	MIN-MAX VARIANCE
GBP/USD	1.25	1.31	£1 million	\$60,000
GBP/EUR	1.14	1.19	£1 million	€50,000
EUR/USD	1.05	1.11	€1 million	\$60,000

Please note, these are the maximum and minimum rates forecast by major banks. How would your profits be affected if the worse outcome did actually happen?

# HOW DID Q1 FORECASTS FARE AGAINST REALITY?

As expected, the first quarter of 2024 was dominated by interest rate speculation. The biggest volatility was seen when market expectations of when central banks would act shifted. It was a tiring, sometimes trivial game that led to each fragment of economic data being dissected in forensic detail. The mood changed on a daily basis, which meant forecasts and predictions failed to tell the whole story.

## GBP/USD

In our January to March forecast, GBP/USD was expected to range between a minimum rate of 1.17 and 1.29. The upper range of that prediction was in threat for much of the last quarter, as the pound traded well against its peers due to sticky inflation and noncommittal comments from the Bank of England (BoE). Sterling briefly peaked at 1.29 before beginning a slide that turned things on their head.

The pound struggled as markets predicted the BoE would be first to pull the trigger on lowering borrowing costs. We still don't know whether that will be the case, but as is so often the case in currency markets, perceptions can be just as important as fact in influencing exchange rates.

## GBP/EUR

GBP/EUR ascended to a two-year high in March. That peak would prove short-lived, and GBP/EUR failed to move out of the predicted 1.11-1.18 range. The ECB's Christine Lagarde burst the bubble with some muscular comments on interest rates, leading to a gradual euro comeback over the last months of the quarter. Inflation also fell in the eurozone, which raised the prospect of the ECB loosening rates at a similar time as the BoE.

## EUR/USD

EUR/USD was forecast to range from as low as 1.04 to as high as 1.17. As it turned out, the pair traded blows around the middle of that range without testing either end. The euro ended the quarter about a cent down against the US dollar, but that fact belied a real period of nip and tuck for the rival currencies.

## WHAT IMPACT WOULD THIS HAVE?

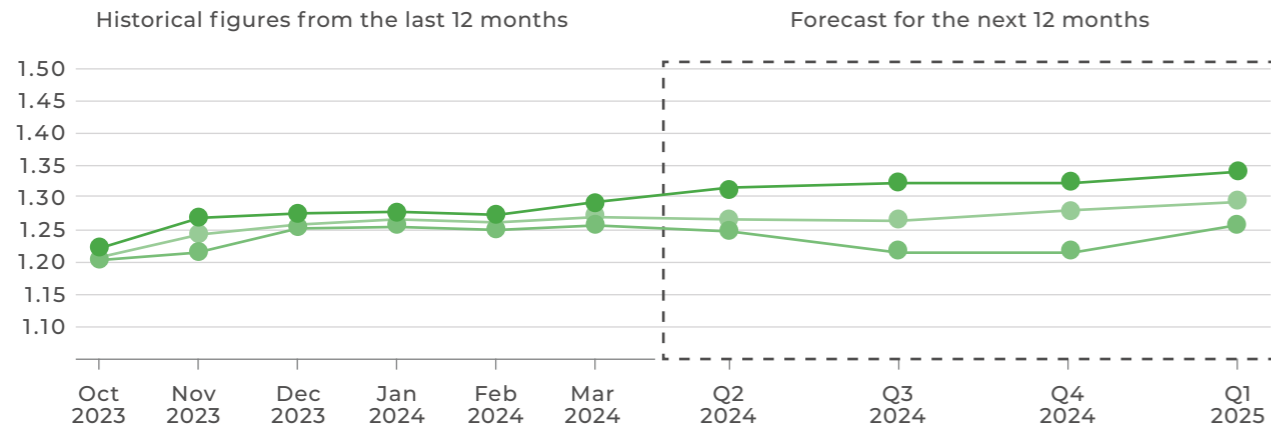
Trusting currency pairings to follow a predictable path is a risky game. As the table shows, a difference of just a few pennies up or down could have a significant impact on your next transaction. For many people, relying on markets to stay consistent can be disastrous.

It's a truism of financial markets that too many place their faith in the experts. Advice is obviously necessary when it comes to managing your money, but no number of degrees or qualifications are enough for any person to be 100% correct about currency markets. When your money is at stake, we would strongly advise you don't take anything for granted.

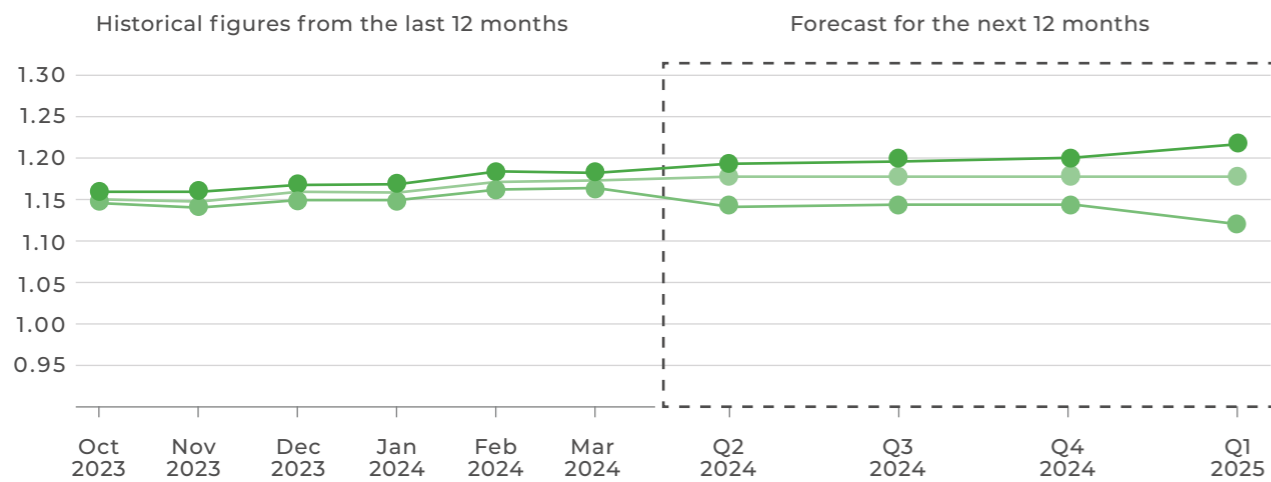


See the calendar on pages 6-7 for the most important, potentially market-moving events this quarter.

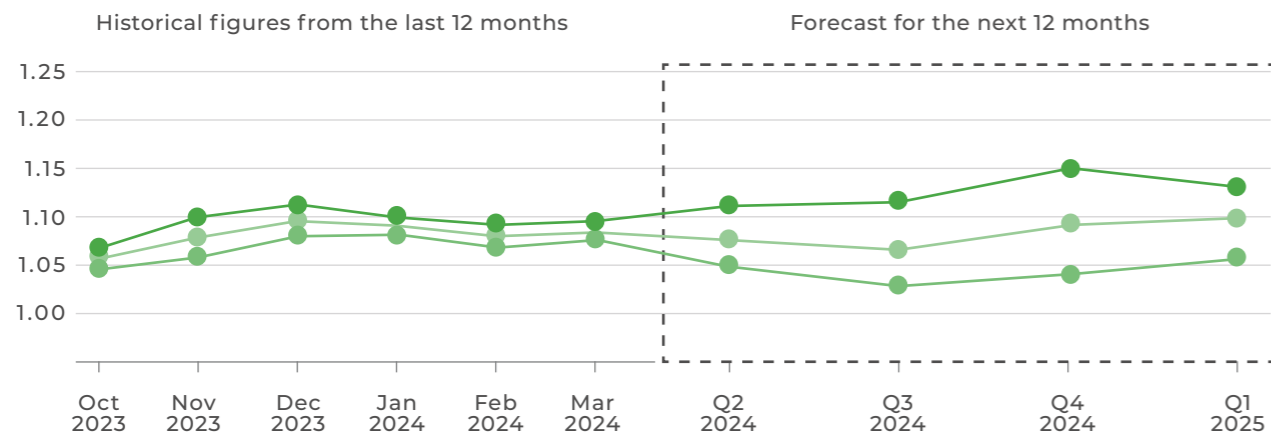
## GBP/USD



## GBP/EUR



## EUR/USD



SOURCE: BLOOMBERG. ACCURATE AS OF 3RD APRIL 2024.

## SUMMARY

The last quarter saw relatively smooth progress among major economies. While performance varied, much of the G7 trended towards growth and deflation. That is extremely good news for businesses, homeowners and the average worker, who just a few short months ago had been told to prepare for a financial calamity not seen in decades.

Over the last quarter, GBP/EUR ranged by 2% and GBP/USD by less still. There were some relatively gentle swings within that period, but the biggest volatility will likely come when central banks act. As we know, even the most marginal percentage changes can scupper any transaction, so don't be fooled by the low numbers.

### A NARROW PASSAGE

The world is still adjusting to the new normal. Global economic prospects rest on inflation becoming housetrained, which would allow central banks to reduce interest rates and chart a course for growth. Major policymakers have gone from coy on rates to optimistic, with all of the Bank of England, ECB and the Federal Reserve accepting that policy will likely loosen this year.

The question has gone from if central banks will cut interest rates to when. It is a delicate issue of timing made all the more important by the remarkable resilience of employment markets and wage growth. Stumbling blocks like shipping uncertainty are also front and centre. The road to recovery is narrow, but if you had offered it to leaders last year, it would have looked like a five-lane motorway.

### A FRACTURED WORLD

There is a sense that the world entered a more dangerous phase with Russia's invasion of Ukraine. Pandora's box may be ajar as opposed to open, but since then we've seen war in the Middle East and growing tensions between China and the West. For now, China is locked in a technological battle with the USA. However, it seems grimly likely that Taiwan and the South China Sea will become the subject of focus before long.

Major democracies must also navigate an unprecedented number of key elections this year. From India to the UK, billions of people will cast their vote in what feels like a momentous fork in the road. The stakes are high and the world must brace itself for whatever comes next.

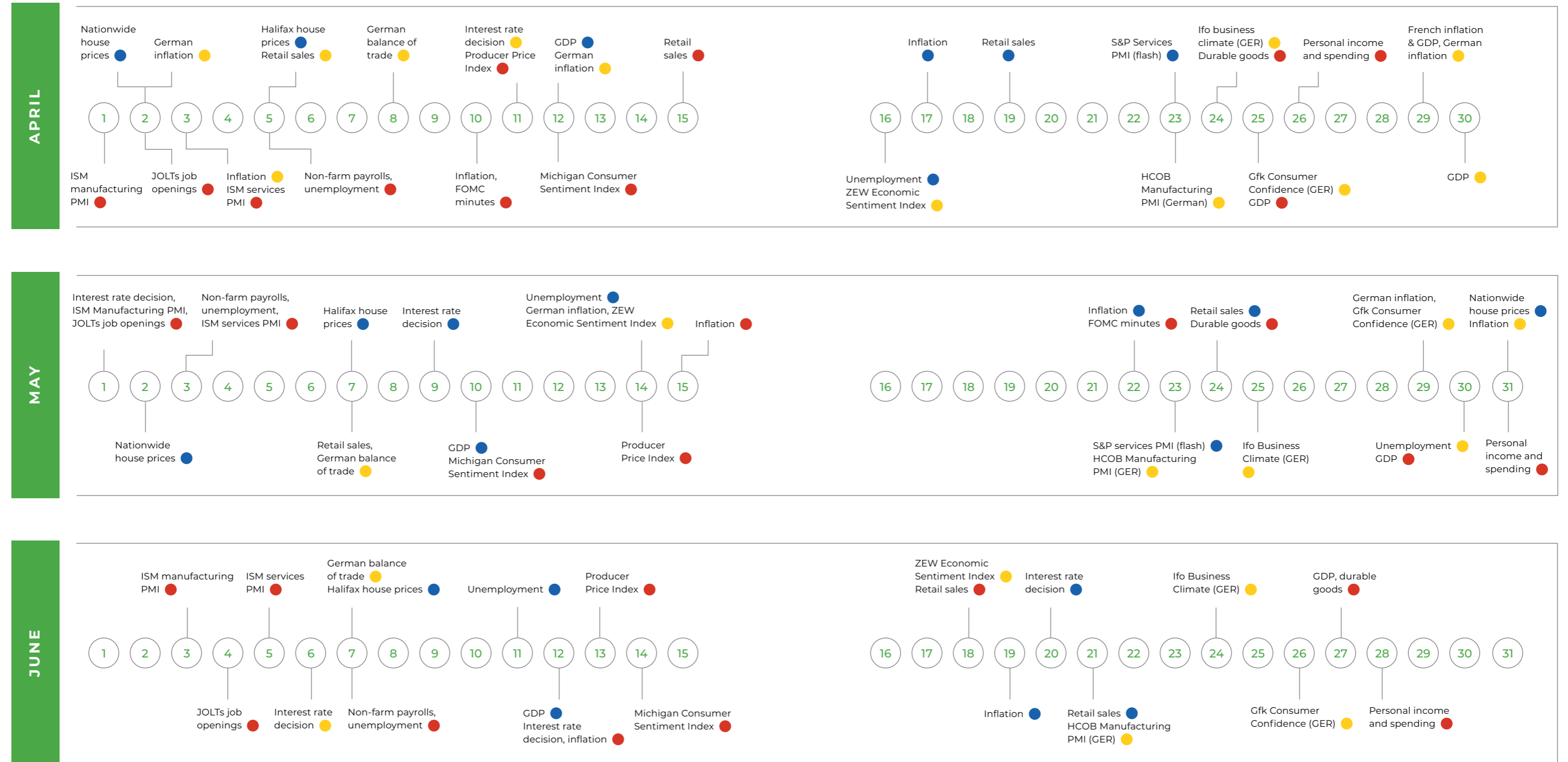
“Interest rates are the heart of our economic system. Interest rates are the price of money, and the time and risk that it takes to pay it back.”

Ray Dalio

# MARKET-MOVING EVENTS THIS QUARTER

## KEY ECONOMIC EVENTS Q1

● UK ● USA ● EUR



## UK ECONOMY

Things are looking up for UK PLC. While the three-headed monster of inflation, low investment and low productivity has not been tamed, it has at least been held at arm's length. Progress has been most notable on inflation, which fell to 3.4% in February, and recent pickups in foreign investment have been hailed as evidence of a resurgent landscape.

This is not to gloss over the fact that the UK remains in a technical recession. However, with GDP on the rise to begin the year, hopes are high that any recession will be short and shallow. In fact, some economists believe that the UK has already exited its recession. If that's true, it would represent one of the most remarkable "soft landings" from economic strife in modern British history.

More tests will follow, that much you can be sure of. For Rishi Sunak and the Conservatives, improvements to the economy are unlikely to feed through to the public in time to translate to a win at the general election. However, some of the darker clouds that hung over the UK economy have begun to lift. Hope — in such short supply in recent times — is beginning to build.

## BANK OF ENGLAND

Interest rates are still at 5.25% but policymakers are feeling the pressure. At the Bank's March meeting, none of the Monetary Policy Committee (MPC) members voted for a rate hike, down from two at the previous confab. Politicians and the public in general gave the Bank space to carry out their remit of lowering inflation as price pressures soared. However, now that CPI is falling and unemployment bobs along at historical lows, calls for policymakers to act are growing.

Three rounds of rate cuts is the base case assumption for 2024. That's despite policymaker Catherine Mann's recent comments that there was too much complacency with this assessment. Perhaps fairly, markets have preferred to take their lead from governor Andrew Bailey, who said that three rate cuts this year would be a "reasonable" assumption.

Interest rates have done their job in stymying economic exuberance. Everyone is keen for monetary policy to



normalise, but the Bank must time their cuts to prevent inflation from resurfacing. When will it cast off the shackles on the economy? Soon, it would appear, but the precise date is anyone's guess.

## AN AUTUMN POLL?

Under UK law, the government must call an election before 28<sup>th</sup> January 2025. However, most commentators believe a vote will be held this side of Christmas, possibly as soon as June. Chancellor Jeremy Hunt gave the clearest indication of the government's path, hinting at an October date at a recent select committee appearance.

The Conservatives are pinning their electoral hopes on a handful of issues and the belief that the economy will improve in time to boost morale. That seems fanciful, particularly given the fact Labour's 20-point lead in the polls has held steady for almost two years. Sunak has struggled to wrest control of the narrative as real wages continue to trend downwards, growth flatlines and the economic consequences of Brexit become clearer.

One polling expert claimed that Labour had a 99% chance of forming the next government. That number feels high given the recent dominance of the Conservative party, although you'd be hard pressed to find anyone claiming Keir Starmer won't be the UK's next Prime Minister. The pound will be under the spotlight this year regardless of who steps into 10 Downing Street.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	5.25%	Mar 24
Inflation rate	3.40%	Feb 24
Unemployment rate	3.90%	Jan 24
GDP growth rate	0.10%	Feb 24

# THE EUROPEAN ECONOMY

It's been a choppy start to the year for the eurozone. Economic growth was stagnant in the last quarter of 2023, and while 0% growth is better than negative growth, it doesn't exactly point to boom times ahead. Most worrying of all was that traditional drivers of growth like Germany were among the biggest underperformers, while southern European nations helped boost the figures.

Inflation is still the biggest bugbear in European economies. Economists have sounded repeated warnings that price increases could mount a comeback, although as of now, the headline figure is falling across most of the continent. We'll soon find out if growth in countries like Spain and Italy is sustainable and whether the likes of Germany and France (which currently faces a widening budget deficit) can bounce back. That will be the crucial litmus test of Europe's economy.

## ECB

The European Central Bank's (ECB) March press conference was an unusually testy affair. As expected, the decision was to leave interest rates unchanged, but policymakers were clearly irritated by the media's questioning about whether the ECB could cut before the Federal Reserve. That led President Christine Lagarde to point to June as the starting point for lower borrowing costs.

Finnish policymaker Olli Rehn put it simply: "the ECB is not the Fed's 13th Federal District". It was a declaration of independence from the suits, albeit not one that everyone found convincing. The euro had a far better second half of the quarter, boosted by combative comments from the ECB. Whether it can maintain that rally as we enter the central bank jousting period remains far from clear.



# BRACING FOR EXTREMISM

European Parliament elections are typically sleepy affairs. A party gets elected in a rather polite campaign before trotting off to Brussels to dig into the paperwork. The resurgence of the far right in Europe has changed this.

Few people believe the EPP party — spearheaded by incumbent Ursula von der Leyen — will be knocked off its perch. However, parties like the nationalist ID (Identity & Democracy Party) are polling well and look on course to secure a good chunk of the seats on offer. Extremism has come to Europe's previously liberal elections; it could be a bumpy road onwards.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	4.5%	Apr 24
Inflation rate	2.60%	Feb 24
Unemployment rate	6.50%	Feb 24
GDP growth rate	0.00%	Dec 23

## US ECONOMY

The first weeks of 2024 were marked by a booming jobs market and sticky demand-side dynamics. Recent data has been a bit less scorching though, with a slower pace of growth in the JOLTs job openings report and a notable dip in consumer confidence surveys.

Mounting government debt concerns continue to dominate discussion across the Atlantic. Total outstanding public debt is now at \$34trn and that figure is growing by about \$100bn every 100 days. Blackrock CEO Larry Fink recently warned that the US was threatened by “snowballing” debt, and markets tend to stop and listen whenever he opens his mouth.

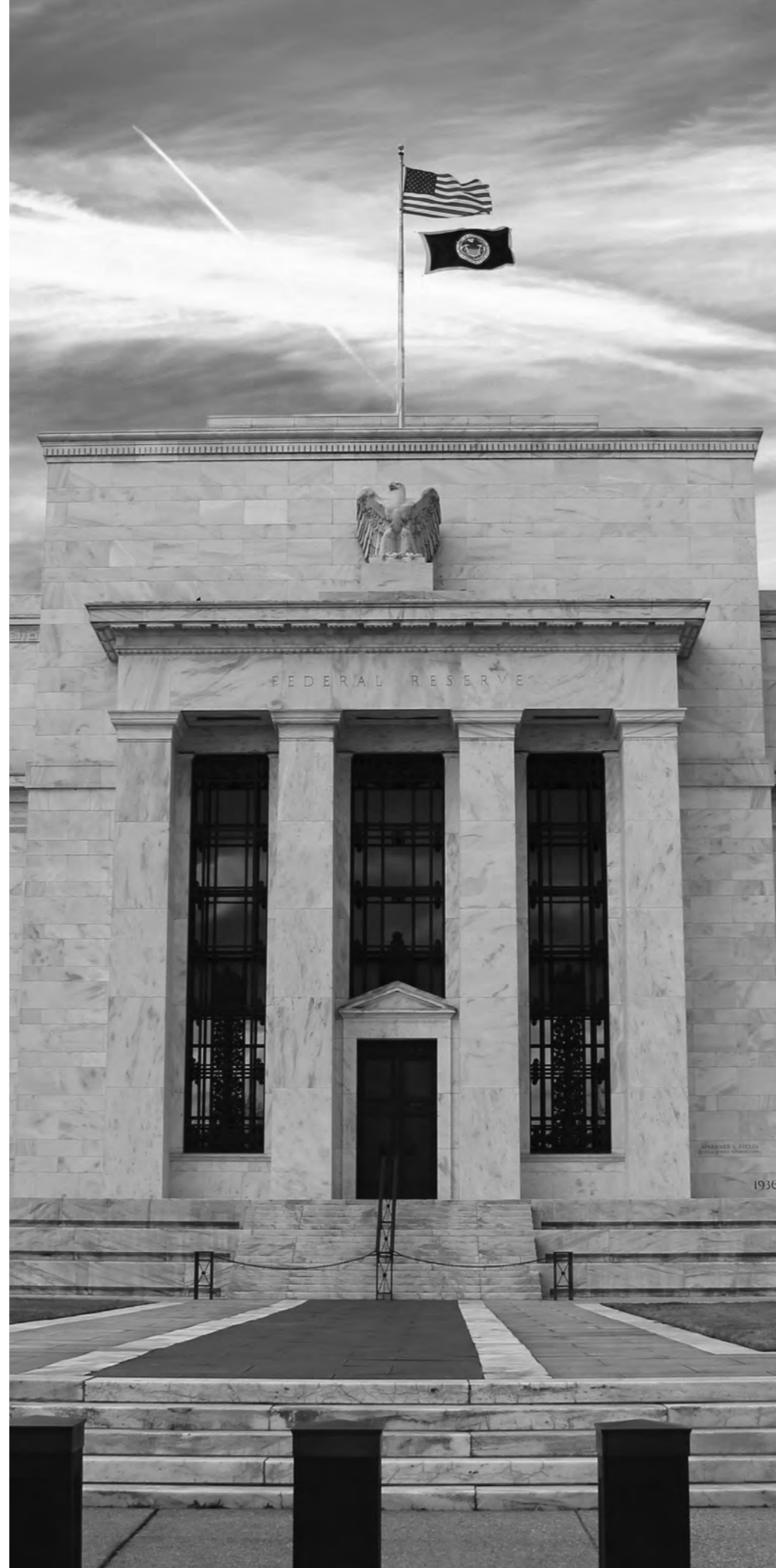
For now though, the wheels of the American economy keep spinning. America is the world’s dominant economy for a reason and few are expecting imminent calamity. US dollar buyers should still beware debt concerns and the threat of the election, along with a long list of geopolitical risks.

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## FED LEADING THE WAY

Federal Reserve chair Jerome Powell must feel like he’s in the Truman Show. Powell is the most-watched man in world markets, with his words forensically examined every time he steps behind a podium.

So far, the Fed has done a remarkable job convincing people that interest rates need to stay higher for longer. After a long spell of delusion, traders finally cut their losses and now expect the Fed to follow the BoE’s trajectory and cut three times in 2024. The US remains the standard bearer for central banks, so there’s a good chance we’ll have to wait for the Fed to move before we can expect widespread rate normalisation.



## THE REMATCH NOBODY WANTED

If you were to take the pulse of the American electorate, you might begin with the Texas man who changed his legal name to Literally Anybody Else in protest against the candidates on November’s ballot paper. This struck a chord with voters, many of whom have grown tired of choosing between radical and establishment figures. Above all else, there is a sense that both men are too old to run again.

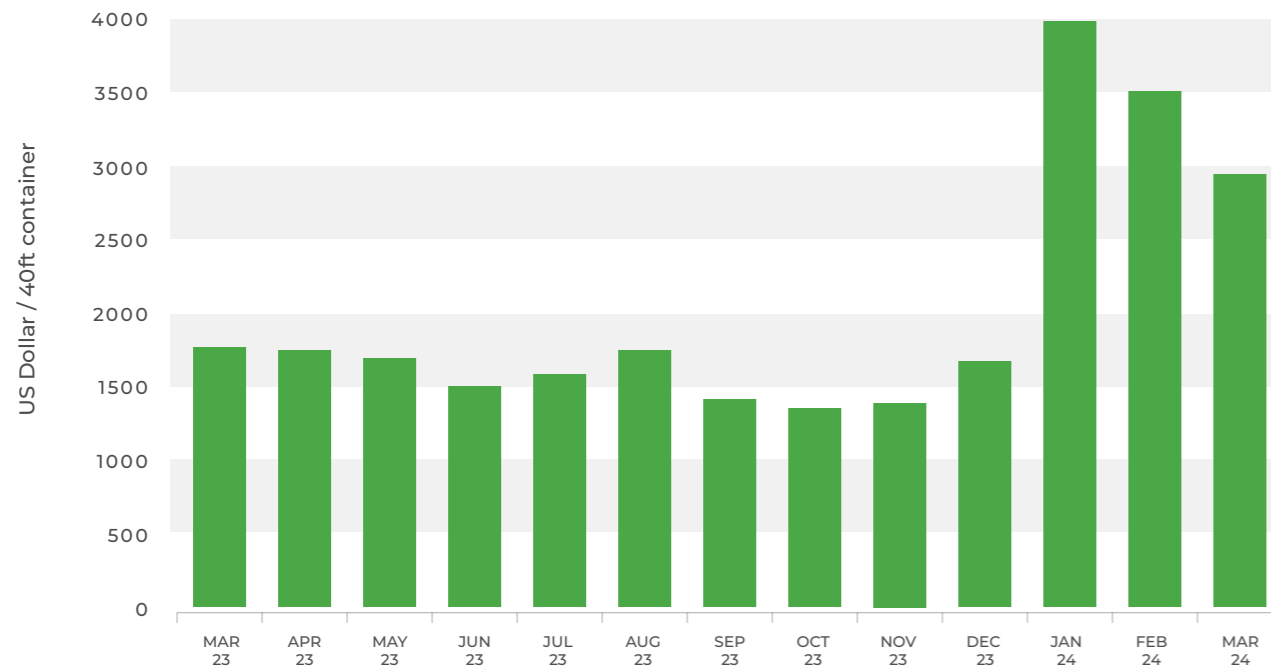
Polarisation and apathy are the two disconcertingly distant threads in US politics. Biden and Trump both inspire loyalty and ridicule in equal measure and Trump has threatened “bedlam” if the courts block him from running. If he does win, Trump’s apocalyptic language has some worrying about reprisals and vindictive decisions.

Joe Biden’s term in office has hardly been a disaster, but he has come in for criticism for his handling of domestic and foreign affairs. There are concerns about immigration as well as a rather juvenile attempt by House Republicans to tarnish his reputation through his son, Hunter. It’s going to be a tight race. Both are virtually neck and neck in voting polls, although most currently point to a slim Trump lead. There are still more than six months until the election, so for now, the US dollar could be in for a prolonged spell of volatility as the rhetoric ramps up.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	5.25-5.5%	Mar 24
Inflation rate	3.50%	Mar 24
Unemployment rate	3.80%	Mar 24
GDP growth rate	3.40%	Q4 23

# OUR STRATEGIST'S KEY CHART

## AVERAGE SHIPPING COSTS ON MAJOR ROUTES



Source: Drewry World Container Index, Drewry Supply Chain Advisors

As the first shots were fired by Houthi militants in the Red Sea last year, businesses, governments and societies sat up. Around 12% of global trade passes through the narrow strip of sea — the equivalent of more than \$1trn in goods every year. Fuelled by intense media speculation and little prospect of diplomacy, the price of shipping worldwide climbed rapidly.

The above chart shows the average cost of shipping on major maritime routes over the past 12 months. Notably, the price of buying 40ft of container space rose by more than \$2000 as the crisis reached its most fraught point. Prices have since eased, although March's prices were still almost double those of last summer. Governments responded quickly and the maritime trade has rerouted many vessels, but there can be little doubt that this crisis is a major threat to the global recovery.

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1. Refer a new business client to Smart Currency by 7th June. It's easy, just use the QR code!
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[www.smartcurrencybusiness.com/referral-incentive](http://www.smartcurrencybusiness.com/referral-incentive)

### Here's what last year's winner had to say about their prize:

"Toby, Mike and I had a brilliant time. Please thank everyone at Smart for a wonderful gift and I will make sure to keep mentioning Smart to all and sundry for their Forex needs."



SPECIAL FEATURE

# GLOBAL CURRENCIES

## AUSTRALIAN DOLLAR

The Australian dollar has had a tremendous year of strength. This has come as the Reserve Bank of Australia appeared to be moving in the opposite direction compared to its central bank counterparts. Interest rates have been locked at 4.35% for a while now, but the actions of Australian policymakers have set alarm bells ringing that the direction of travel may be up, rather than down.

Price pressures in the economy are stubbornly high. Many consumer expenses (from food and housing to energy costs) are going up, not down, although there was some relief in February's figures. The Australian dollar has climbed as policymakers warned of further hikes. Its future strength rests on the outlook for rates in the short term and on foreign policy (particularly its relationship with largest trading partner, China) in the long term.

## SWEDISH KRONE

Sweden's accession into NATO marks a fundamental change in how the Scandinavian country views itself. Once a bastion of anti-war liberalism, Sweden has been forced to reckon with its shakey geopolitical foundations in the aftermath of Russia's invasion of Ukraine. Early attempts to join NATO were blocked. However, Sweden was able to get the vote over the line, officially joining the alliance on 7<sup>th</sup> March.

Just in time, because the krone had lost over 10% to the US dollar since the start of the war. The NATO vote boosted the krone by around 2% but did little to change the Nordic nation's outlook. Downside risks are high for Sweden's currency and will likely remain so until it settles into its seat at the defence table.

## INDIAN RUPEE

India is often referred to as the world's largest democracy, although many would question that assessment given its political landscape. Prime Minister Narendra Modi has held power for ten years and his recent tilt towards authoritarianism makes another election victory all but certain.

While India's currency avoids electoral uncertainty, it heads straight on for a fraught future. The biggest question of all remains the country's relationship with China. Once sworn enemies, the two have seen their interests increasingly aligned as global markets look to break the centuries-long hegemony of the West.

India's economy has grown by more than 7% in each of the last three years. It has proven a magnet for investment and that looks set to continue with population growth showing no sign of stopping. The Indian rupee is still a fringe currency (it has fallen by 8% against the US dollar since 2021), but its future is an intriguing one considering India's perch between East and West and its ability to play both sides in future disputes.

“Perceptions can be just as important as fact in influencing exchange rates.”

# IN BRIEF: JAN – MAR 2024

GBP/USD RATES 2024		
MONTH	HIGH	LOW
January	1.28	1.26
February	1.27	1.25
March	1.29	1.26
Q1 Average	1.27	

Over the past 12 months the highest rate for GBP/USD has been 1.31 while the lowest has been 1.21.

GBP/EUR RATES 2024		
MONTH	HIGH	LOW
January	1.17	1.15
February	1.17	1.17
March	1.18	1.17
Q1 Average	1.17	

Over the past 12 months the highest rate for GBP/EUR has been 1.17 while the lowest has been 1.13.

EUR/USD RATES 2024		
MONTH	HIGH	LOW
January	1.10	1.08
February	1.09	1.07
March	1.09	1.08
Q1 Average	1.09	

Over the past 12 months the highest rate for EUR/USD has been 1.12 while the lowest has been 1.05.

# MAJOR BANK CURRENCY FORECASTS

2024 MAJOR BANK FORECASTS - GBP/USD				
INSTITUTE	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Barclays	1.26	1.25	1.28	1.29
BNP Paribas	1.31	1.33	1.33	1.34
UniCredit	1.26	1.27	1.28	1.27
JP Morgan	1.22	1.22	1.25	1.29
Rabo	1.25	1.26	1.29	1.30
Citi	1.25	1.22	1.22	1.26
CommBank	1.28	1.29	1.30	1.32
<b>Median</b>	1.26	1.26	1.28	1.29
<b>Minimum</b>	1.25	1.22	1.22	1.26
<b>Maximum</b>	1.31	1.33	1.33	1.34

2024 MAJOR BANK FORECASTS - GBP/EUR				
INSTITUTE	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Barclays	1.18	1.19	1.20	1.22
BNP Paribas	1.19	1.20	1.20	1.20
UniCredit	1.14	1.14	1.14	1.12
JP Morgan	1.16	1.16	1.15	1.15
Rabo	1.18	1.19	1.19	1.19
Citi	1.19	1.18	1.18	1.18
CommBank	1.18	1.15	1.14	1.12
<b>Median</b>	1.18	1.18	1.18	1.18
<b>Minimum</b>	1.14	1.14	1.14	1.12
<b>Maximum</b>	1.19	1.20	1.20	1.22

2023 MAJOR BANK FORECASTS - EUR/USD				
INSTITUTE	Q2 2024	Q3 2024	Q4 2024	Q1 2025
Barclays	1.07	1.05	1.06	1.06
BNP Paribas	1.10	1.10	1.10	1.11
UniCredit	1.11	1.12	1.13	1.13
JP Morgan	1.05	1.05	1.09	1.12
Rabo	1.05	1.06	1.08	1.09
Citi	1.06	1.03	1.04	1.07
CommBank	1.09	1.12	1.15	1.18
<b>Median</b>	1.07	1.06	1.09	1.11
<b>Minimum</b>	1.05	1.03	1.04	1.06
<b>Maximum</b>	1.11	1.12	1.15	1.13

\*SOURCE: BLOOMBERG. WE TOOK A SELECTION OF FORECASTS AND ROUND UP TO TWO DECIMAL PLACES. MINIMUM AND MAXIMUM COLUMNS SHOW THE EXTREMES. ACCURATE AS OF 3RD APRIL 2024.

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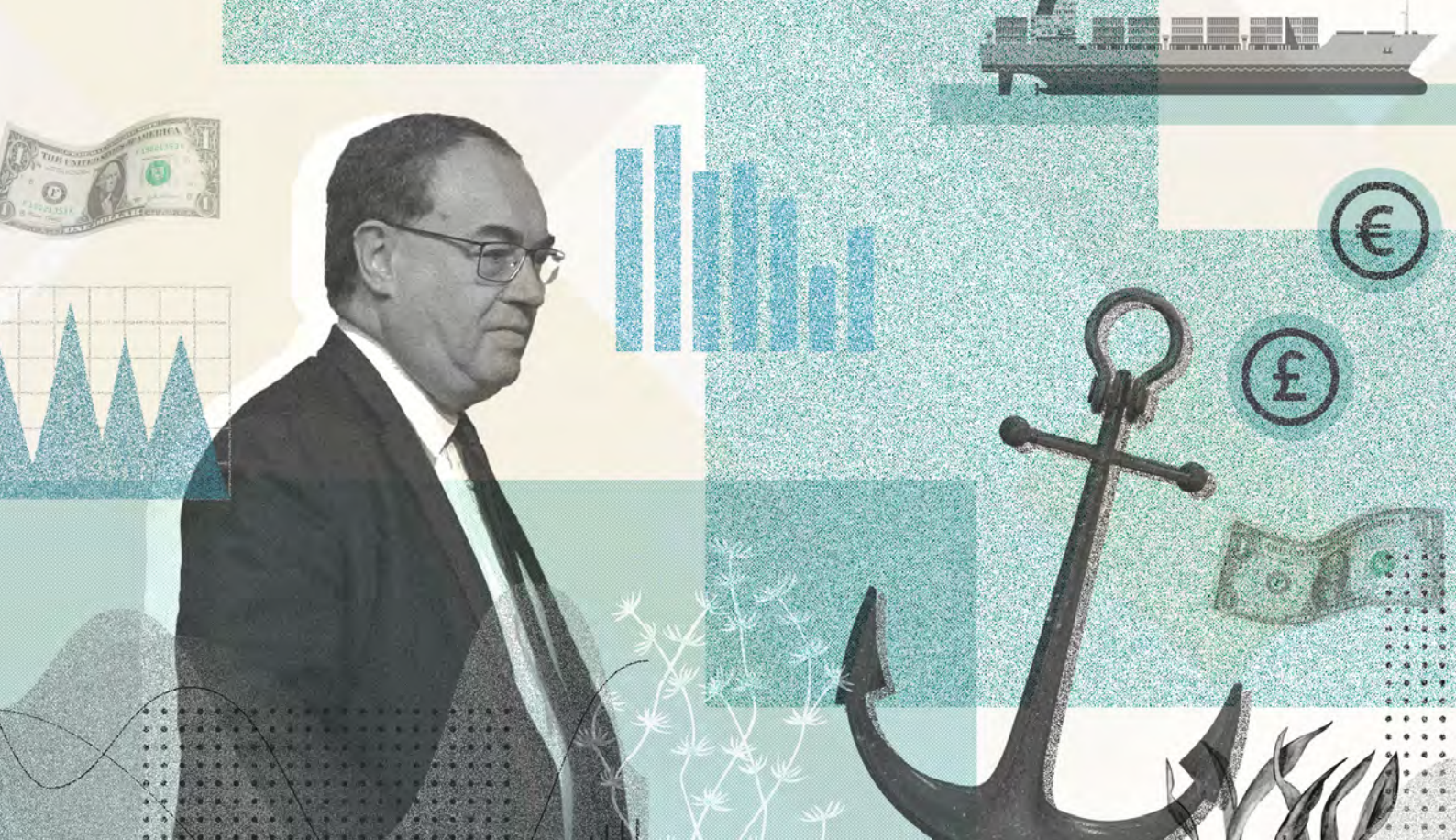


If you've used our services in the past, we'd love to hear from you. If you can spare a minute or two, please leave us a review on Trustpilot using the following link:

<https://uk.trustpilot.com/review/www.smartcurrencybusiness.com>

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- **To help us stay attuned to your needs** — Hearing about the challenges you face making foreign currency transfers allows us to adapt to changes and keep our eyes on the future. Your reviews are invaluable and help us to keep up with everything that matters to you.
- **To help us become the leading provider of risk management solutions** — We want to help more people manage their currency risk. Too many transactions are ruined by volatile markets, but we're on a mission to put a stop to this. Your review can help Smart Currency become even better and further our standing as a leading provider of risk management solutions.



## ABOUT US

We are a recognised expert in financial risk management, providing UK companies with tailored currency exchange services. Our experts help businesses mitigate the risk of foreign currency exposure when making international transfers and payments. This can involve creating bespoke solutions that meet the specific circumstances of your business. We are also passionate about working with our clients to help them understand just how important currency risk management can be in these uncertain times, and regularly provide news, insights, guides and white papers to educate businesses. We have been a business since January 2005.

## FURTHER INFORMATION

For further information on how Smart Currency Business can help protect your budget and international transfers and payments, email us at [YRHFinanceTeam@smartcurrencybusiness.com](mailto:YRHFinanceTeam@smartcurrencybusiness.com) or give us a call on **020 7898 0500**

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