



SMART CURRENCY BUSINESS

WILL THE MIDDLE EAST CONFLICT BRING INFLATION ROARING BACK?

QUARTERLY FORECAST APRIL – JUNE 2026

WHAT DOES THE BIGGEST OIL SHOCK IN HISTORY MEAN FOR YOUR BUSINESS?

WILL THE UK SUFFER THE WORST OUTCOME OF THE G20?

WHICH ASSET IS DRAWING COMPARISONS TO 2008?

PLUS, CURRENCY PREDICTIONS FROM LEADING BANKS



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NOTE FROM THE MANAGING DIRECTOR

Welcome to our second quarterly report of the year. And what a start to the year it has been.

Day after day, significant, often bewildering news keeps arriving. Answers (when they come) serve only to create new questions: when will oil prices stabilise? What is the impact on my business in real terms? How long until the next crisis?

The conflict in the Middle East has cranked up the risks to the UK and the global economy. Higher prices will increase input costs across industries and mean consumers shell out more at the pump and pay higher prices for their weekly shop. The longer it drags on, the worse things will be. The issue is nobody (not even President Trump, it would appear) seems to know how long it will last.

The risks of leaving your budget unprotected at this time have never been higher. Likewise, attempting to second-guess an irrational and unpredictable market has been exposed as a fool's game. The kind of questions listed above are reasonable, but they aren't the right questions.

Nobody can say for sure what will happen tomorrow, let alone in a few months' time. The only antidote to uncertainty is certainty, and that's exactly what we try to provide at Smart Currency Business. With careful planning and thoughtful solutions that safeguard your cash, we will pull out all the stops to make sure your bottom line is secure this summer and beyond.



As always, we wish you a happy, healthy and productive quarter and look forward to working with you to support your objectives.

Alex Bennett, Managing Director, Smart Currency Business

WHERE WILL RATES BE BY JULY 2026?

Rate predictions for the end of quarter two of 2026 and the possible impact on your budget. If you were changing £1 million for USD, the predictions carry a disparity of \$90,000 and for EUR a disparity of €40,000.

CURRENCY PAIRING	MIN. RATE	MAX. RATE	AMOUNT CHANGED	MIN-MAX VARIANCE
GBP/USD	1.27	1.36	£1 million	\$90,000
GBP/EUR	1.12	1.16	£1 million	€40,000
EUR/USD	1.11	1.19	€1 million	\$80,000

Please note, these are the maximum and minimum rates forecast by major banks. How would your cashflow and profits be affected should the worse scenario play out?

HOW DID Q1 FORECASTS FARE AGAINST REALITY?

Just like last year, expert predictions made only a few months ago have quickly looked a little silly. It goes to show how a single social media snippet, off-hand comment or decision can blow a hole in almost every assumption you can think of.

While we might have been able to predict the US Supreme Court's decision to strike down Donald Trump's tariffs, it was much harder to foresee an American president striking Iran. Likewise, the dizzying advances in AI (and the increasingly large tremors these are sending through markets) are almost impossible to fathom. The world is changing so fast that most predictions aren't worth the paper they're written on.

GBP/USD

The pound to US dollar rate sat within the 1.3-1.39 range predicted in our last forecast. That trite observation belies one of the most extreme periods of uncertainty in the modern era.

Sterling hit its best level against the US dollar in four years at the peak of the 'sell America' trade in January. The US dollar's allure as the default safe haven was stretched almost to breaking point. Still, when push came to shove, investors showed they weren't willing to jump ship just yet. As the crisis in the Middle East raged through March, the US dollar enjoyed its best month since 2024.

GBP/EUR

Last year, it was tariffs. This year, it is energy setting the direction. The UK and eurozone economies share many similarities right now. Low growth and fears of stagflation have coloured the political response to the war, one in which politicians on either side of the Channel have floated the idea of financial support for citizens.

This key pair traded in a relatively small range in recent months. Our last forecast predicted the pound could drop as low as 1.11 – a major miss and one that goes to show just how unreliable the supposed experts can be.

EUR/USD

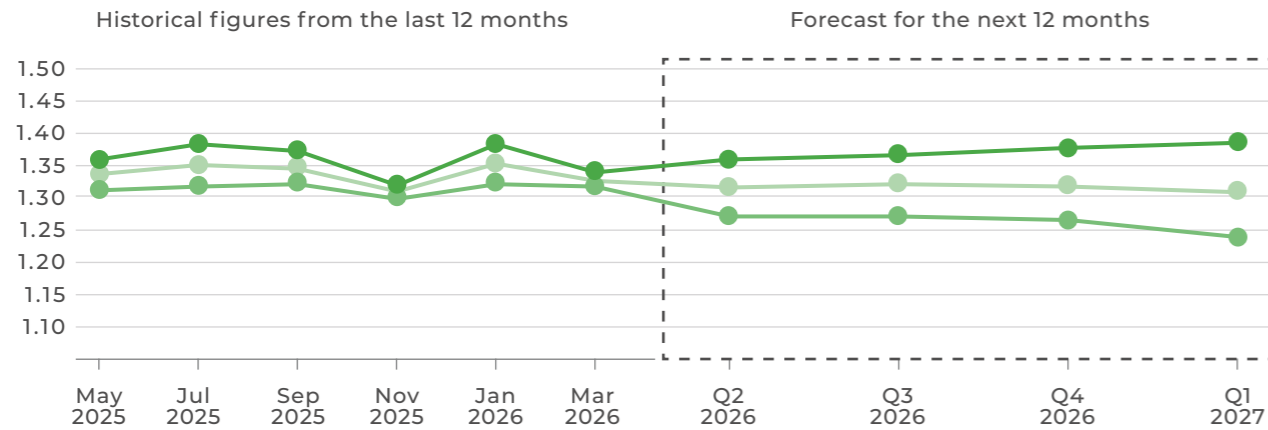
The euro smashed past the upper limit of 1.18 predicted by leading banks back in January, peaking at 1.20 before returning to earth with something of a splat.

The main reason for this volatile dynamic is structural. As a net exporter of both gas and oil, the US has a decent buffer of affordable domestic fuel to absorb some of the supply shock. This is not the case for the eurozone. Scarred by memories of the 2022 gas crisis, the euro has struggled to overcome fears of stagflation taking hold. At the moment, the euro is suffering from its economic exposure to the crisis.

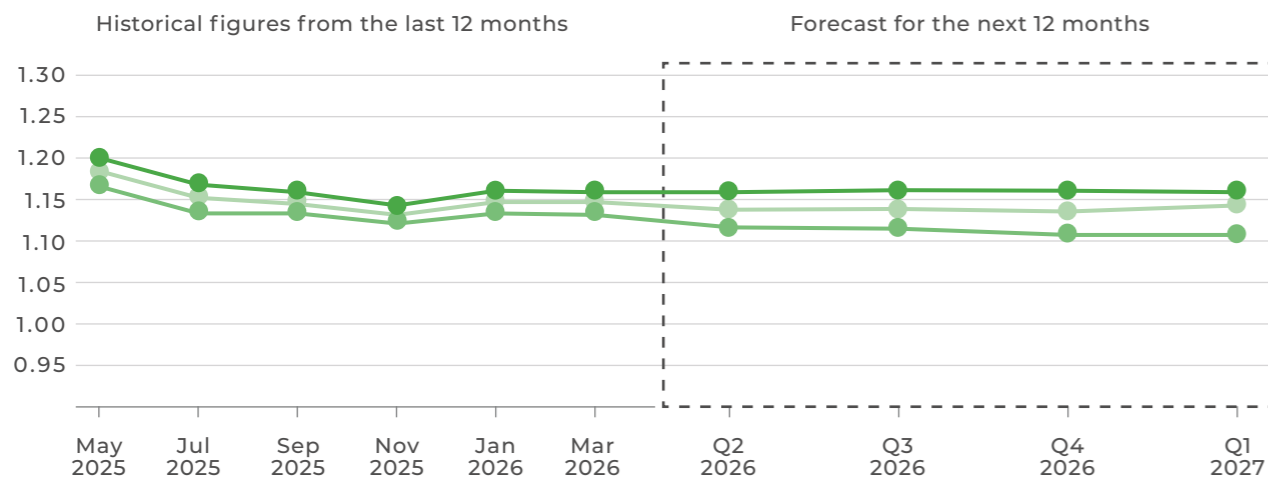


See the calendar on pages 6-7 for the most important, potentially market-moving events this quarter.

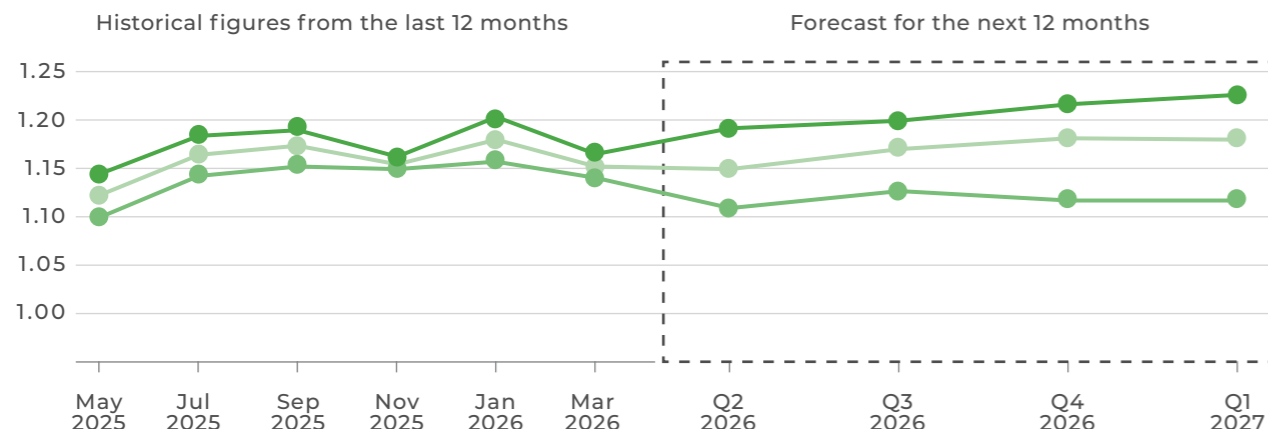
GBP/USD



GBP/EUR



EUR/USD



SOURCE: BLOOMBERG. ACCURATE AS OF 1ST APRIL 2026.

SUMMARY

By reducing the Strait of Hormuz to a heavily insured marina, the Iranian regime pushed all its chips into supply chain warfare. To the surprise of few, it worked. The International Energy Agency called recent events “the largest supply disruption in the history of the global oil market”. Even after the ceasefire and conditional reopening of shipping lanes, it is sure to have lasting consequences for a major chunk of the world’s economic output.

Economists fear that recent events will cause a severe period of stagflation across the world. A crisis like this has the power to be self-perpetuating, raising the cost of goods, government debt and business while stifling growth and investment.

In truth, there are so many open questions that it’s impossible to say what the impact will be. Most major banks have revised their economic growth estimates down. Many of them have said they expect GDP growth to be slower across the globe, even if the conflict ends and the vital chokepoint in the Gulf is reopened soon.

THE ECONOMICS OF WAR

It is noteworthy just how much Donald Trump’s war aims shifted since the start of March. After initially targeting regime change and an end to Iran’s nuclear programme, the US government pivoted to prioritise reopening the Strait of Hormuz, even if Israel maintains loftier goals.

If Trump failed to understand the economic leverage of his opponent, he certainly does now. According to Goldman

Sachs, a sustained increase in oil prices could trim several percentage points off American GDP growth. Many economies – including erstwhile US allies in the Gulf – would suffer an even greater hit. The knock-on effect on everything from aluminium to helium means this is a much bigger problem than just the prices at the pump.

AI SHAPES MARKETS

Individual AI research notes swung markets on more than one occasion in the past quarter. As the technology arms race heats up, each new model is having an increasingly large impact on markets. Analysts are becoming an increasingly influential source of direction for billions of pounds of capital.

In February, Citrini Research ran a simulation of current trends and predicted the economic impact of AI integration. It speculated unemployment could peak above 10% as AI agents disrupted all corners of the economy, from software and finance to housing. Uber, American Express and Mastercard all cited the report to explain sudden falls in their stock prices. The predictions may not come to pass, but the incident demonstrated the volatility and uncertainty at the heart of this revolutionary technology.

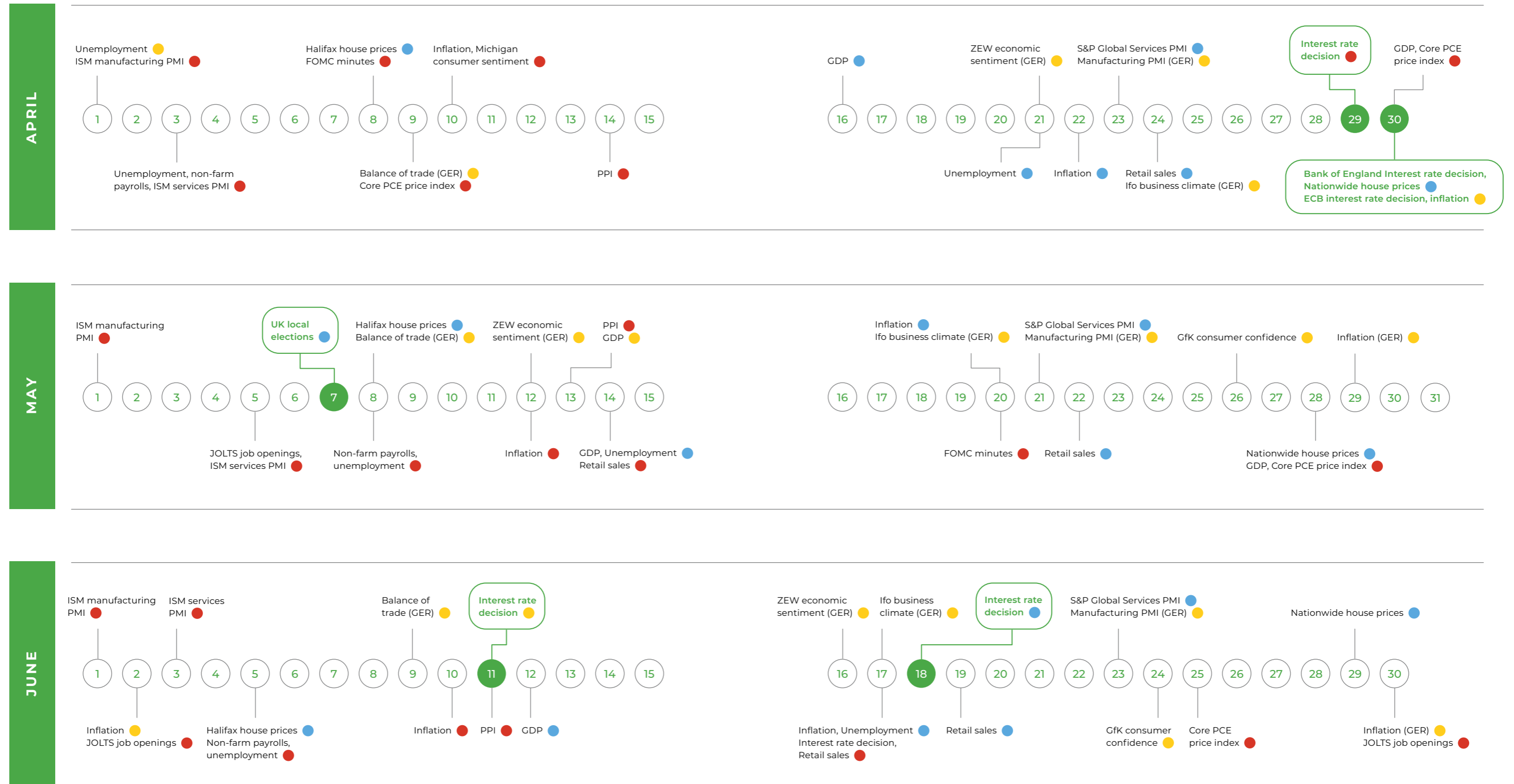
“The only function of economic forecasting is to make astrology look respectable”

John Kenneth Galbraith

MARKET-MOVING EVENTS THIS QUARTER

KEY ECONOMIC EVENTS Q2

● UK ● USA ● EUR



UK ECONOMY

The mood has gone from optimistic to dour in the blink of an eye for UK PLC. Headline inflation is expected to top 3% by the time Ofgem's price cap expires in June, leading to concerns the Bank of England might be forced from a path of gradual rate cuts to one of sharp and painful hikes.

The Office for Budget Responsibility downgraded its growth forecasts for the UK economy alongside the spring statement, and that was before the Iran impact had been accounted for. Several heavyweight institutions have predicted the UK economy will be more exposed to the oil and gas crisis than any other in the G20.

A swift resolution would limit the impact of these pressures. Borrowing costs twice eased to 14-month lows in the past quarter before immediately shooting higher on political crises. A large chunk of the UK's public debt is pegged to inflation, worrying given current trends but a sign that progress can be made in the right weather. At present, the clouds are ominous.

THE MARADONA EFFECT

Economists and markets disagree about what the war means for the interest rate outlook. While traders were quick to price in four rate hikes across 2026, others were less certain. The prevailing view was there is little chance of cuts, but hikes were a risk rather than a guarantee.

The language around March's decision was a lot more hawkish than it might have been. The Monetary Policy Committee stood "ready to act", Andrew Bailey said, but was that just grandstanding? There has been some suggestion Bailey is talking a good game, feinting this way and that to maintain strategic ambiguity, a strategy former Bank governor Mervyn King modelled on a certain Argentinian footballer.



POLITICS IS LOCAL

British political veterans always caution against over-analysing special elections. However, the Gorton and Denton by-election certainly felt like a referendum on Sir Keir Starmer's government. The Green Party overturned a massive Labour majority, flipping voters from ethnic minorities dissatisfied with foreign policy and other voters dissatisfied with everything else. The humbling 26% swing to the Greens augured poorly for the prime minister's future and Labour's prospects in May.

Ahead of the local elections, both wings of the political spectrum appear splintered. On the left, Labour is losing ground to the Greens. On the right, Reform UK is hoovering up disillusioned Tory and Labour voters. The decline of the two major parties has created opportunities for fringe voices and uncertainty for the establishment.

By the time our next Quarterly Forecast comes out, we could well have a new prime minister. Angela Rayner – brought back to the fold after last year's second home scandal – appears best placed to profit in a packed field of challengers. There is little to gain from mounting a challenge amid war in the Middle East. Once that is settled, the knives could be out for Sir Keir.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	3.75%	Mar 26
Inflation rate	3.0%	Feb 26
Unemployment rate	5.2%	Jan 26
GDP growth rate	0.1%	Q4 25

EU ECONOMY

It's been a low-key start to the year for the eurozone economy. After the passage of the German government's budget last autumn, many pundits expected growth to kick into a higher gear as more money went towards productive transportation and defence projects. Imports and exports slumped by 2 and 5% respectively in January, an indication of the scale of the challenges ahead.

But there are some shoots of green reaching skyward. In March, manufacturing output expanded at its fastest pace since June 2022 and new orders also hit a four-year best. Despite rising input costs, the eurozone's low baseline inflation level gives it an added buffer compared to other major economies.

Just how much the German government's fiscal spending spills over into the rest of the bloc remains a topic of debate. For economies with high domestic energy costs, such as Italy, there is little doubt that this year will be defined by the length and severity of the conflict.

FROM HOLDS TO HIKES

The European Central Bank (ECB) has been torn away from its comfortable 'wait and see' position. A long period with rates on hold at 2% brought inflation down to target. Just like that, March saw headline inflation shoot up across Germany, France and the bloc as a whole – a little flavour of what's to come. Banks and traders now think the ECB is plotting 'insurance hikes', possibly as soon as April.

In February, ECB president Christine Lagarde denied media reports that she planned to step down early in 2027, a move that would give Emmanuel Macron a say in her successor. That left the succession plan a little murky.



CHANGE BY THE DANUBE

European leaders joined forces to repel an unprecedented assault on Nato sovereignty less than a month into 2026. President Trump spearheaded a brutal, blunt and sometimes laughable campaign that threatened Greenland, and Denmark by extension. The White House's imperialist overtures have shaken European capitals, who now view that relationship with suspicion.

It was not without a degree of schadenfreude that these same leaders rejected Trump's pressure to assist the United States in Iran. Some, including Spain's Pedro Sanchez, were forceful in declining. Others were more tactful, leaving the door open for limited military assistance, as was the case with Emmanuel Macron.

Away from the war, Hungary is very much in the spotlight this spring. Having stonewalled and frustrated European Union (EU) attempts to tighten sanctions on Russia, Viktor Orban's party trailed in the polls heading into election day (12 April). As frustration with Orban's heel-dragging increased, the EU discussed contingency plans that would allow them to circumvent an obdurate member.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	2.0%	Mar 26
Inflation rate	2.5%	Mar 26
Unemployment rate	6.2%	Feb 26
GDP growth rate	0.2%	Q4 25

US ECONOMY

The bifurcated American economic experience carried over into a fresh quarter. As political insiders profit from their proximity to market-moving decisions, the job market has cooled and pension portfolios have taken a battering in the recent mayhem.

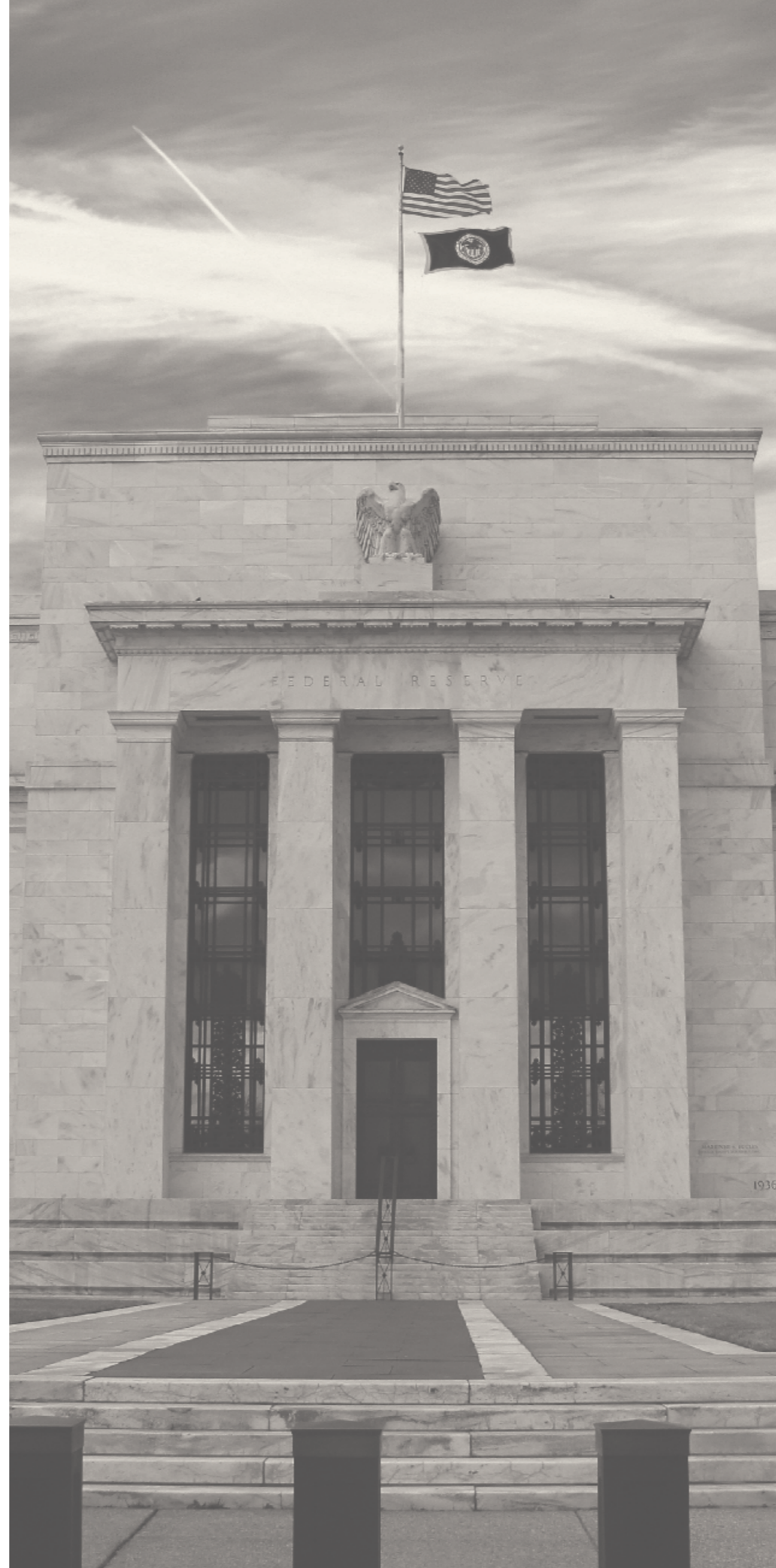
At the petrol pump, consumers have got reacquainted with the joys of a Middle Eastern embroilment. Gas prices are up by between 50 to 75 cents across the country – a significant shift in an economy so dependent on personal vehicles. Likewise, small businesses are dealing with higher input costs, thereby reinforcing depressed hiring dynamics.

Things look healthy enough at a headline level. Growth is down but remains solid and the resilient economy ultimately absorbed the brunt of the tariff war. Individual studies and sector reports are less positive. The University of Michigan's influential study has consumer confidence close to record lows, with particular friction around personal finance and savings.

KING KEVIN

Jerome Powell's stint as chair of the Federal Reserve is coming to an end, but he has no intention of walking away entirely. The president's favourite punching bag has said he intends to stay on as a voting member of the FOMC. His stubborn attitude to policy will be missed by many who pine for a more 'normal' world.

Soon, the Kevin Warsh era will begin. Some of the initial concerns about Warsh's proximity to the White House have subsided, but it is no secret Trump wants a bigger say on interest rates. Treasury secretary Scott Bessent and the president are both angling for an element of oversight, potentially to the long-term detriment of the US dollar.



A FAMILIAR QUAGMIRE

Through design or delusion, Donald Trump became the latest in a long line of presidents drawn into a Middle Eastern entanglement. After promising to end the American obsession with 'forever wars', his pivot was viewed with dismay by many MAGA onlookers. Emboldened by January's capture of Venezuelan leader Nicolas Maduro, Israel and the United States launched strikes against Iran's leaders, infrastructure and allies.

But it wasn't so easy this time. America's leaders have long had a penchant for foreign wars with nebulous, often downright unachievable goals. Iran was something else entirely – an uncontrollable hornet's nest with few palatable exit points. The political implications of high gas prices may sting the president before long.

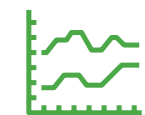
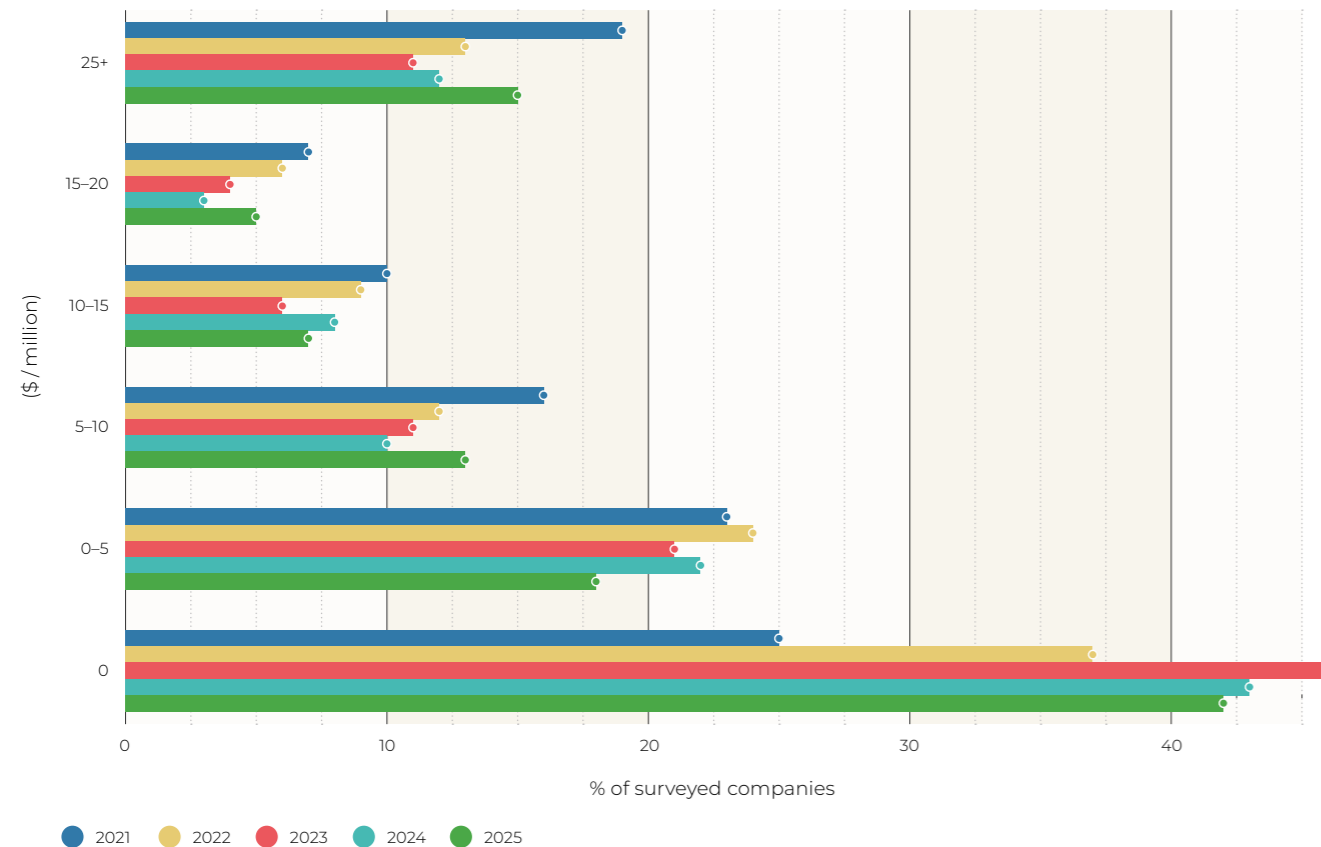
Ahead of the November midterms, Trump's approval rating is at its lowest ebb of his second term. The list of crises in the past quarter reads like a rap sheet for a doomed candidate: ICE overstretch; deliberate violations of the Epstein Act; a Supreme Court loss over tariffs; and now, an unsanctioned, seemingly rash strike on a regional powder keg. If this were any other candidate, you would say they face a wipeout at the ballot box. But this is Donald Trump.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	3.75%	Mar 26
Inflation rate	2.4%	Feb 26
Unemployment rate	4.3%	Mar 23
GDP growth rate	0.7%	Q4 25

OUR STRATEGIST'S KEY CHART

FREE OPERATING CASHFLOW (PRIVATE CREDIT AND MID-MARKET LOANS)

Source: S&P Global Ratings



Finance insiders are sounding the alarm over a sub-section of the capital markets drawing anxious comparisons to 2008. The collapse of two American sub-prime lenders last year was followed in February by Market Financial Solutions, a UK-based mortgage provider that collapsed overnight on allegations of fraud, sparking fears of loose underwriting standards. JPMorgan's CEO Jamie Dimon warned there were probably more 'cockroaches' in the cupboards.

Private credit – a somewhat shadowy asset that allows borrowers to draw up flexible funding arrangements with non-bank lenders – has exploded in the past decade. According to Fitch Ratings, loan defaults hit a record high above 9% in 2025. UBS said private credit defaults could top 15% if AI disrupts corporate borrowing aggressively. Defaults are at manageable levels for now, but a senior executive did let slip his clients were glad of a distraction in the Gulf to reduce the heat on private credit.

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KEY DATES AND EVENTS

Currency fluctuations are always unpredictable, but the biggest volatility tends to occur around significant economic and political events. We have selected three dates across the next quarter when markets might be even more overheated than usual.



30 APRIL BANK OF ENGLAND DECISION

A rare unanimous decision at the Bank's March meeting marked a pause rather than a peace in the battle between the hawks and doves. All nine Monetary Policy Committee members voted to hold at 3.75% amid intense uncertainty. At the time, the only sensible choice was to wait and see. That restraint won't hold forever. In fact, it could shatter as soon as the April meeting, by which time enough dust should have settled around the Middle East to support more decisive policy arguments. Some will no doubt argue for pre-emptive rate hikes to contain inflation, but things are complicated by the suspicion that the war will end before long. The pound (and your budget) will be affected in any event.



7 MAY UK LOCAL ELECTIONS

Leadership hopefuls and vengeful backbenchers alike have had the first Thursday in May circled in their calendars for months. Squeezed on both the left and right flanks, Labour is expected to receive a drubbing at the local elections. Attempts to limit the number of positions up for grabs failed in the courts, meaning there could be several hundred council seats changing hands. The fear for Sir Keir Starmer and his team is that this might finally prove sufficient to sustain a leadership challenge. At times, it looked like this would come in the past three months. Starmer probably owes his job to the fact that few have wanted to stick their head above the parapet. He may not have a parapet by June.



11 JUNE-19 JULY 2026 FIFA WORLD CUP

Spanning the entire North American continent, the biggest World Cup ever has also become the most politicised in a generation. Hosting the bulk of football's great showpiece in Trump's America has thrown up all kinds of questions. Fans from several countries will have trouble securing visas without breaking the bank. FIFA raised a few eyebrows when it unveiled Donald Trump as the winner of its inaugural 'peace prize' last November. Gianni Infantino and co would have had some explaining to do to the Iranian contingent had they not pulled out from the competition at the start of the conflict. While roasting weather and an unprecedented 48 teams might make the football feel a tad bloated, there are plenty of political story lines to obsess over.

IN BRIEF: JANUARY – MARCH 2026

MONTH	GBP/USD RATES 2026	
	HIGH	LOW
January	1.38	1.33
February	1.37	1.35
March	1.34	1.32
Q1 average	1.35	

Over the past 12 months the highest rate for GBP/USD has been 1.38 while the lowest has been 1.27.

MONTH	GBP/EUR RATES 2026	
	HIGH	LOW
January	1.16	1.14
February	1.16	1.14
March	1.16	1.14
Q1 average	1.15	

Over the past 12 months the highest rate for GBP/EUR has been 1.2 while the lowest has been 1.13.

MONTH	EUR/USD RATES 2026	
	HIGH	LOW
January	1.2	1.16
February	1.19	1.18
March	1.17	1.14
Q1 average	1.17	

Over the past 12 months the highest rate for EUR/USD has been 1.2 while the lowest has been 1.1.

MAJOR BANK CURRENCY FORECASTS

2026 MAJOR BANK FORECASTS - GBP/USD				
INSTITUTE	Q2 2026	Q3 2026	Q4 2026	Q1 2027
ANZ	1.36	1.37	1.38	1.39
Banco Santander	1.33	1.31	1.3	1.31
Citi	1.27	1.27	1.27	1.27
Commerzbank	1.33	1.35	1.36	1.38
Investec	1.31	1.33	1.34	1.35
JPMorgan	1.34	1.36	1.35	1.38
Societe Generale	1.31	1.28	1.26	1.24
Median	1.33	1.33	1.34	1.35
Minimum	1.27	1.27	1.26	1.24
Maximum	1.36	1.37	1.38	1.39

2026 MAJOR BANK FORECASTS - GBP/EUR				
INSTITUTE	Q2 2026	Q3 2026	Q4 2026	Q1 2027
ANZ	1.14	1.14	1.14	1.14
Banco Santander	1.16	1.16	1.16	1.16
Citi	1.14	1.12	1.11	1.12
Commerzbank	1.12	1.14	1.14	1.15
Investec	1.12	1.14	1.14	1.15
JPMorgan	1.15	1.14	1.12	1.15
Societe Generale	1.14	1.12	1.11	1.11
Median	1.14	1.14	1.14	1.15
Minimum	1.12	1.12	1.11	1.11
Maximum	1.16	1.16	1.16	1.16

SOURCE: BLOOMBERG. WE TOOK A SELECTION OF FORECASTS AND ROUNDED UP TO TWO DECIMAL PLACES. MINIMUM AND MAXIMUM COLUMNS SHOW THE EXTREMES. ACCURATE AS OF 1ST APRIL 2026.

2026 MAJOR BANK FORECASTS - EUR/USD				
INSTITUTE	Q2 2026	Q3 2026	Q4 2026	Q1 2027
ANZ	1.19	1.2	1.22	1.23
Banco Santander	1.14	1.13	1.12	1.13
Citi	1.11	1.13	1.14	1.14
Commerzbank	1.18	1.19	1.2	1.2
Investec	1.16	1.17	1.18	1.18
JPMorgan	1.17	1.2	1.2	1.2
Societe Generale	1.15	1.14	1.13	1.12
Median	1.16	1.17	1.18	1.18
Minimum	1.11	1.13	1.12	1.12
Maximum	1.19	1.2	1.22	1.23



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