



SMART CURRENCY BUSINESS HAS LABOUR FIXED THE ECONOMY OR OPENED THE DOOR FOR REFORM?

QUARTERLY FORECAST JANUARY – MARCH 2026

WHERE NEXT FOR THE ECONOMY AFTER A CHAOTIC BUDGET?
COULD THE US DOLLAR SINK TO NEW LOWS?
WHY AI AND GEOPOLITICS WILL DOMINATE ANOTHER YEAR
CURRENCY PREDICTIONS FROM LEADING BANKS



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NOTE FROM THE MANAGING DIRECTOR

A very Happy New Year to all our clients and potential clients, partners and potential partners, and anyone interested in the absurdities of predicting movements in exchange rates.

If 2025 was chaotic, the stunning capture of Venezuela's president to open the year suggests 2026 will bring more fragmentation and uncertainty. The global economy stands on the precipice of great change. Advancements in AI will surely cause profound shifts in the economic wiring, but the path to technological utopia is strewn with tripping hazards.

In the UK, the autumn Budget was the big news leading into Christmas. Businesses were rightly asking fundamental questions about the tax burden and its stifling impact on productivity growth. The chancellor was able to avert a crisis in the here and now, although it didn't prevent speculation about the shelf life of the current government.

Across 2025, the so-called experts habitually misjudged the world's economic resilience. Growth is expected to be sturdy in the next 12 months. However, the sharp and regular adjustments in exchange rates could never be predicted.

Smart Currency Business provides comprehensive solutions that help you navigate a world full of risk. We work alongside you to create strategies that mesh with short and long-term objectives, ironing out inefficiencies and helping you protect (and perhaps even enhance) your cashflow.



From all the team, we wish you a happy and healthy year and look forward to working alongside you in the months ahead.

Alex Bennett, Managing Director, Smart Currency Business

WHERE WILL RATES BE BY APRIL 2026?

Rate predictions for the end of quarter one 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 €70,000.

CURRENCY PAIRING	MIN. RATE	MAX. RATE	AMOUNT CHANGED	MIN-MAX VARIANCE
GBP/USD	1.3	1.39	£1 million	\$90,000
GBP/EUR	1.11	1.18	£1 million	€70,000
EUR/USD	1.14	1.18	€1 million	\$40,000

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

HOW DID Q4 FORECASTS FARE AGAINST REALITY?

Questions abounded for the pound as the leaves fell back in autumn. Chancellor Rachel Reeves opted for a late autumn Budget, a decision that backfired over months of torrid speculation. As much as sterling suffered amid the income tax U-turns, it emerged from the Budget relatively unharmed, even if the euro would continue its impressive run.

2025 was a rough year for the US dollar. Fears over the Trump administration's impact on institutions like the Federal Reserve haven't impacted the economy yet, but they have certainly built a bearish bias into the American currency. Despite this, the widely predicted demise of the dollar is yet to materialise.

GBP/USD

Three months ago, a selection of leading banks predicted the pound could range anywhere from 1.32 to 1.41 against the US dollar – a vast chasm of nine cents. For much of the quarter, it looked like sterling would underperform. But after dropping as low as 1.30 amid the chaotic Budget build up, the pound drew strength from a set of fiscal policies that might be grouped as unhelpful but not disastrous.

A U-shaped quarter saw the pound start and finish strong. As the forecasts at the end of this document show, most bank analysts expect those dynamics to continue between now and Easter.

GBP/EUR

Sterling was held back last quarter by structural and circumstantial issues that dragged on its infrequent advances. The pound never threatened the upper reaches of the forecast 1.14-1.18 range and instead spent much of the past three

months closer to 1.13, the weakest rate in over two years.

Analysts at JPMorgan believe the pound's strong end to last year was evidence of opportunistic 'buy the dip' trades rather than any long-term vote of confidence. The eurozone's renewed economic confidence certainly suggests that sterling will have to go a long way if it is to rediscover the strength of late 2024.

EUR/USD

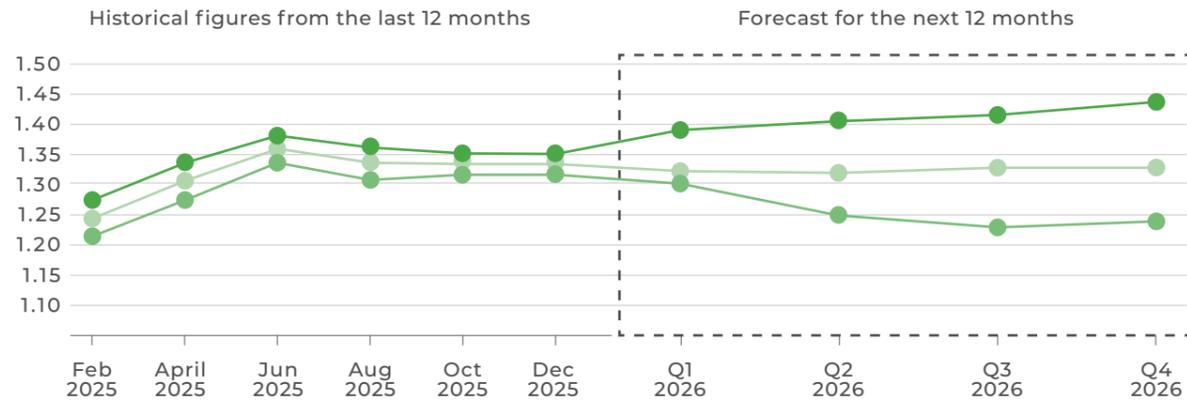
The euro was one of the world's best-performing currencies in the second half of 2025. Benefitting from stable monetary policy and underpinned by a resilient economy, the single currency managed to trend consistently upward from October, although it remained close to the bottom end of the 1.16-1.22 predicted in our last edition.

Despite a government shutdown and seemingly unending question marks, the US dollar had an ace up its sleeve in the form of AI. A select group of tech giants and hyperscalers breathed fresh life into the economy and gave the United States a massive edge on growth.

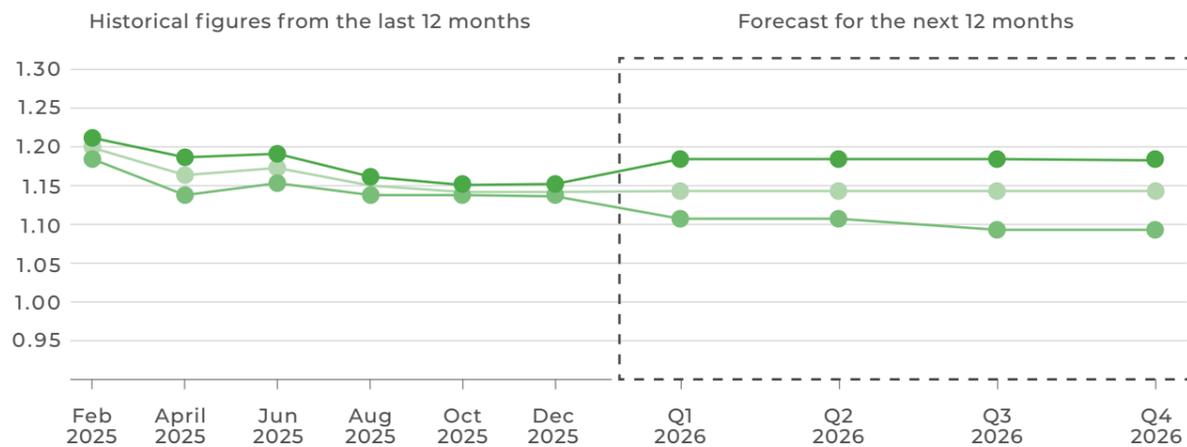


See the calendar on pages 6-7 for the most important, potentially market-moving events this quarter.

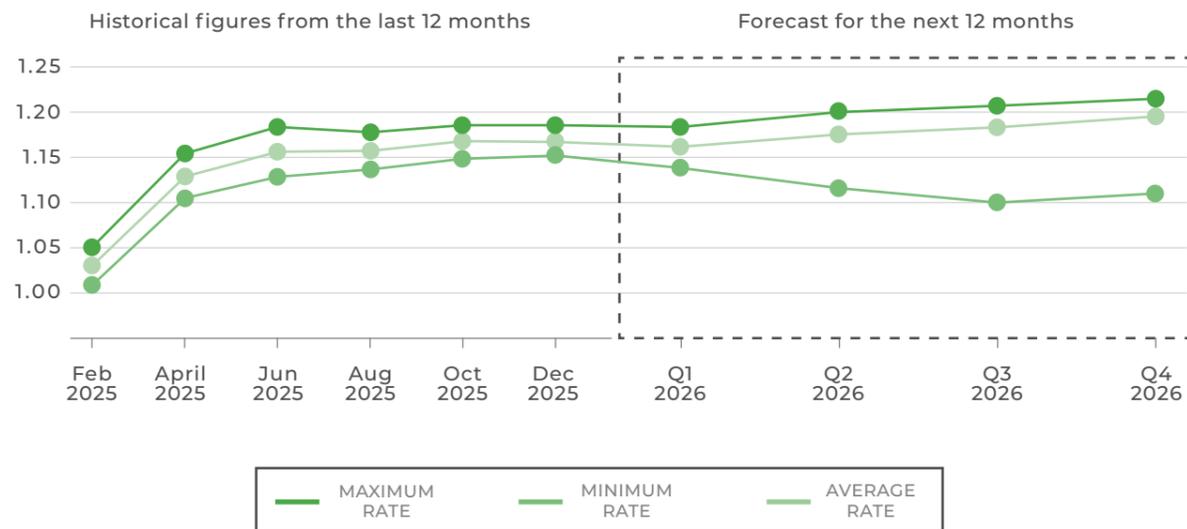
GBP/USD



GBP/EUR



EUR/USD



—●— MAXIMUM RATE
 —●— MINIMUM RATE
 —●— AVERAGE RATE

SOURCE: BLOOMBERG. ACCURATE AS OF 5TH JANUARY 2026.

SUMMARY

Animal spirits are running wild in the United States. AI – the nucleus of growth for much of 2025 – continues to attract frenzied investment. Dig a little deeper, though, and there are weaknesses to be found.

The global economy proved far more resilient to the trade war than many experts feared. The issue is that similar disruptions are emerging at staggering speed. No sooner had President Trump snatched a sovereign ruler than he turned his sights to Greenland, precipitating another frantic response from Europe’s political class. Investing in 2026, or indeed running a business, feels a bit like a game of whack-a-mole.

The longest government shutdown in US history ended via a stopgap deal that sets another huge deadline for the end of January. There is also a decent dollop of political risk in the UK and France, along with fundamental questions over the future of Greenland (and by extension, the NATO alliance). Currency predictions amount to a guessing game in this context.

WHERE’S THE ROI?

2025 ended with the first real jitters over tech spending. Investors pivoted away from debt-fuelled infrastructure splurges to prioritise revenue generation in the here and now. That penalised some companies with longer paths to profitability and ramped up the stakes in the artificial general intelligence (AGI) arms race.

Still, the sheer weight of capital expenditure being siloed toward what for now remain theoretical returns is unprecedented. Much like in the dot-com era, businesses have found initial productivity gains to be thin on the

ground. An EY study found 83% of UK corporates now use generative AI in the workplace, but 40% of productivity gains remain “missed”. The dizzying speed of AI evolution should mean a return on investment arrives, but will that be in 2026 or years down the line?

CONFLICT OVER CONSENSUS

The first half of this decade was marked by the outbreak of new global conflicts. As the war in Ukraine grinds into its fourth year, there is a sense that the entanglements of our time are becoming longer, more inevitable, and more complex to resolve. Significant disputes hang over Europe, the Middle East, Venezuela and Taiwan, bringing the era of conflict home to just about every corner of the world.

Whatever the motivations, it’s clear that global leaders are relying on gunboat diplomacy. The implications for currency markets are vast and at least partly explain the rush towards defensive assets like gold. Taken together, these conflicts risk destabilising a global economy already undergoing profound upheaval.

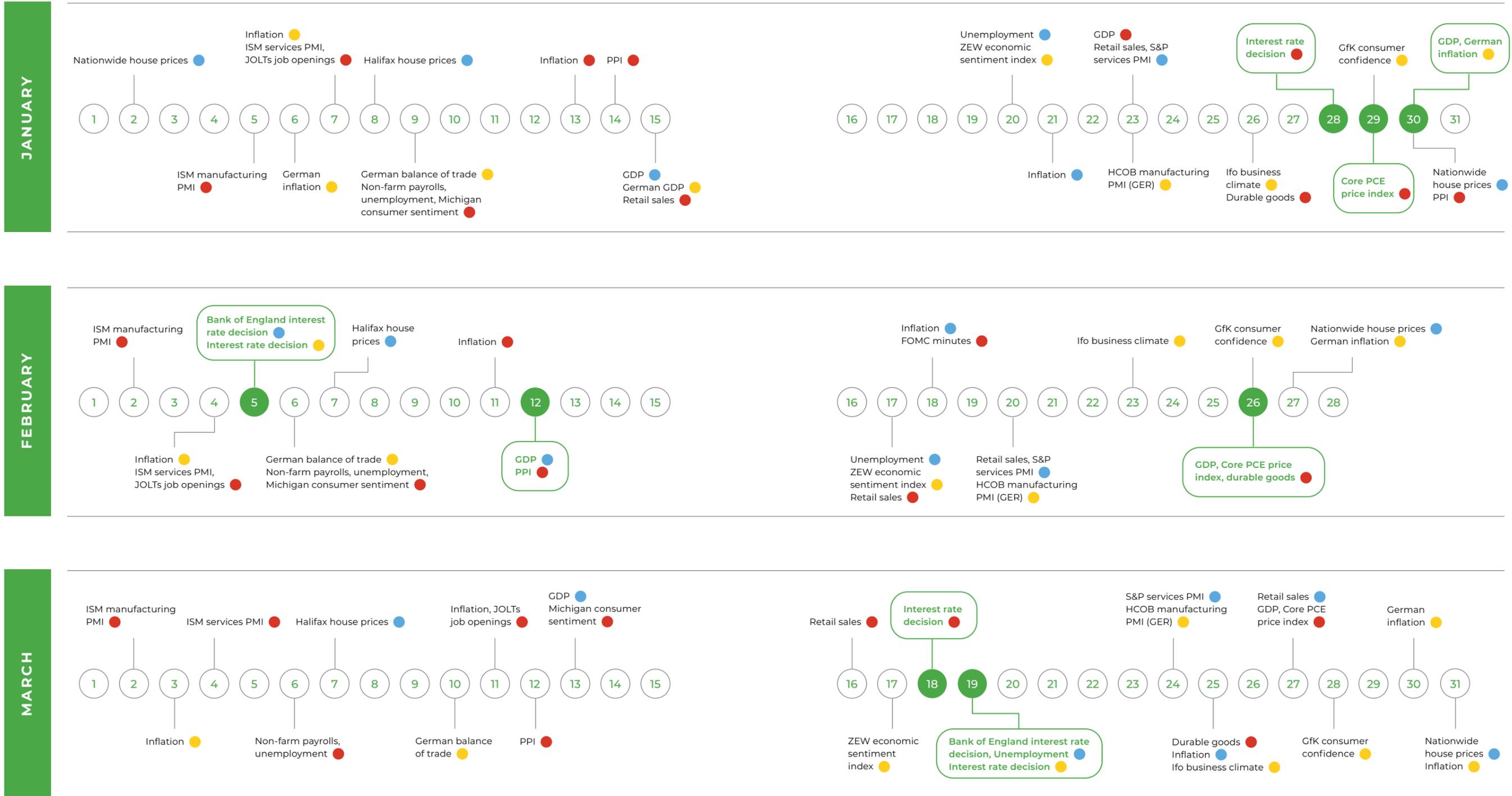
“If the U.S. chooses to attack another NATO country militarily, then everything stops, including NATO, and thus the security that has been established since the end of the Second World War.”

Mette Frederiksen

MARKET-MOVING EVENTS THIS QUARTER

KEY ECONOMIC EVENTS Q1

● UK ● USA ● EUR



UK ECONOMY

UK plc was forced to deal with months of Budget speculation in a drawn-out process that stifled hiring activity. The chancellor's reputation relied on repairing the fiscal hole at the heart of government. Rachel Reeves could say job done on that front, but not before raising the tax take to a record level with an unappetising smorgasbord of new policies.

The doomerism that has dogged these isles has not always been justified. Business investment increased by 1.5% in the three months to October as Labour was able to claw back some credibility. Meanwhile, government borrowing costs stabilised across November and December, reducing the pressure on public finances that built across 2025.

But the Budget was a short-term fix. Larger forces have coalesced to make the UK economy feel trapped in a loop of low growth. The Office for Budget Responsibility (criticised for an embarrassing and market-moving early publication of its fiscal report) slashed its productivity and medium-term GDP forecasts. The Bank of England's Andrew Bailey said it best: "People feel like the economy is stuck".

CLOSER CALLS AHEAD

For the Bank, December's quarter-point interest rate cut – its fourth of the year – looked about as cut and dried as they come. Four consecutive months of tepid growth and a rapid fall in consumer price inflation in November sent the odds of that decision up to 99% by the middle of December.

An early Christmas gift for businesses and consumers, but the Bank will know the hard part is just beginning. Average wage increases are still running hot and unemployment is at its highest in almost five years, putting its dual mandates in tension. Even December's meeting was closer than expected, the 5-4 voting split evidencing "closer calls" on future decisions, as Governor Bailey put it.



LAST CHANCE SALOON

Sir Keir Starmer and Rachel Reeves, their fates bound together by the fragile fibres of party politics, always knew the autumn Budget represented the last chance saloon. Both the prime minister and the chancellor had to deal with threats to their jobs and relentless scrutiny in the final months of 2025. Some of the coverage bordered on the hysterical, even if neither covered themselves in much glory.

The Budget itself passed the scrutiny of the bond market vigilantes. Yet after the flip-flopping over income tax, the electorate was in a less forgiving mood. There was a further painful squeeze on business overheads and the cap on tax-free salary-sacrifice contributions. Another round of fiscal drag helped restore the spending headroom to over £20 billion but contributed to the growing perception of economic stagnation and a government with no long-term plan.

If the polls are to be trusted, Labour could face a damning wipeout in May's local elections, one that would surely be the last straw for this government. Starmer and his allies have just a few months to stave off leadership contenders who smell blood in the water. Nigel Farage and Reform UK loom ominously in the background, ready to capitalise on signs of an economic downturn.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	3.75%	Dec 25
Inflation rate	3.2%	Nov 25
Unemployment rate	5.1%	Oct 25
GDP growth rate	0.1%	Q3 25

EU ECONOMY

The eurozone economy ticked along steadily to end last year, shaking off moribund forecasts and warnings of structural weakness. In December, the European Central Bank (ECB) revised up its full-year growth forecasts for 2025, 2026 and 2027 – the second such upgrade this side of summer.

A crucial reason for this change in tone was the outcome of the presumed trade war with the United States, which proved far less costly than first predicted. Domestic demand has remained robust throughout and the stock market is beginning to power ahead.

Europe still faces a tough path to recovery, but the economic fundamentals look positive. Lower rates should create a good credit environment for business. Meanwhile, the long-awaited explosion in German government spending on infrastructure and defence will soon arrive. Coupled with higher military spending from other member states, the stimulus might just come to the rescue of an economy that at times looked down and out last year.

ECB HITS TARGET

Stable price pressures allowed the ECB to fly under the radar once again last quarter. Headline inflation is squarely in the middle of the target range – vindication of its cautious, calculated approach. Eurosystem staff projections (which compile the opinions of member area central bank governors) actually expect inflation to dip below 2% in 2026 and 2027.

The counternarrative to all this is the suspicion that higher growth and a big influx of German government spending will eventually lead to hotter inflation. That remains conjecture, but the fact it's being mentioned at all is proof that change can come fast, even in seemingly smooth waters.



THE COST OF BETRAYAL

Europe's political establishment viewed the Trump administration's national security review as a historic betrayal. In reviving the Monroe Doctrine of two centuries ago, the United States shifted its focus away from Europe and towards the American hemisphere. The cost of that pivot could well be NATO states, and the risk does not come from Russia alone. America's intervention in Venezuela has renewed the focus on Greenland, particularly as President Trump makes no secret of his desire for the territory.

The EU can no longer rely on American security guarantees and must view diplomacy in a transactional light. The penny has finally dropped for the political class. Agreeing to buy US energy to lower tariffs and then importing less than expected (as Europe did last year) is a sign of this shift, of how Europe must play the game if it wants to sit at the big table.

Internally, the old worries over right-wing gains remain, as do concerns for France. Budget negotiations have rumbled over into January and partisan divisions are deep. That means even more expectation is shifted across to Germany, whose massive fiscal stimulus should be felt in the coming months. Europe has held firm in the face of historic pressure. It will need more than Germany to counter the headwinds it faces.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	2.0%	Dec 25
Inflation rate	2.0%	Dec 25
Unemployment rate	6.3%	Nov 25
GDP growth rate	0.3%	Q3 25

US ECONOMY

Great things are expected of the American economy after a year dogged by uncertainty. Consensus forecasts predict annualised growth will end up around 2% in 2026. Some banks, such as Goldman Sachs, believe the AI gold rush, less aggressive trade policy, and recovering consumer metrics could strongarm GDP closer to 3%, well above other developed economies.

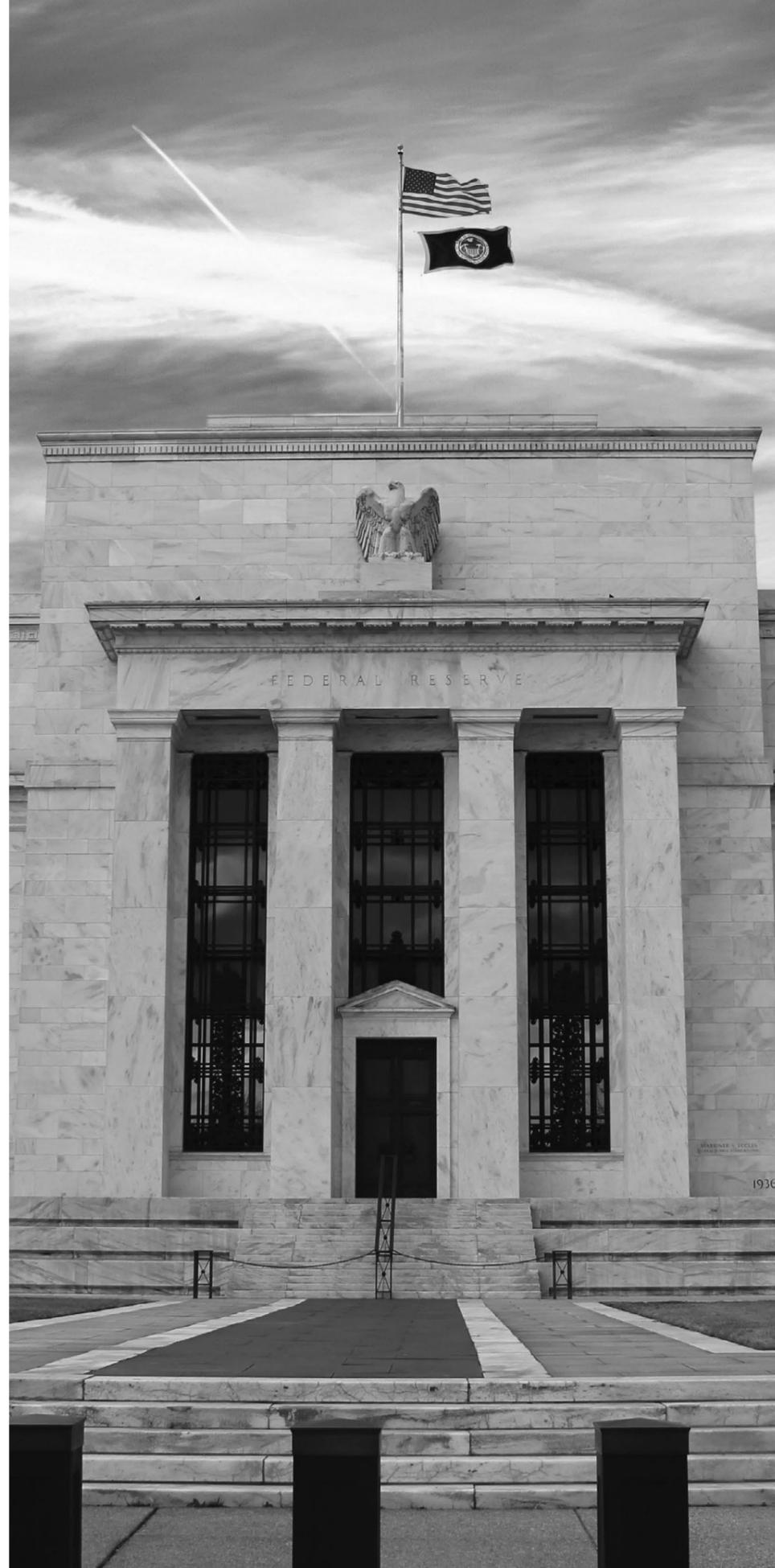
The government shutdown wasn't helpful, creating a weeks-long reporting void that dented credibility and confidence. When we did finally get the numbers, it was clear from payroll data that the labour market had cooled. Unemployment reached a four-year high in November, a sign of the shaky fundamentals that jar against stock market exuberance.

It's hard to ignore the uneven nature of America's economic experience. Real wages are falling for low-income families and even the best college graduates are struggling to find work. AI, cryptocurrencies and swollen commodity valuations have helped the white-collar retail traders. But the current K-shaped trajectory should worry businesses and the Republicans ahead of the November elections.

FED'S UNCERTAIN FUTURE

Rate-setters in Washington have finally delivered the quick string of cuts the president demanded. Next year's dot plot (which shows the expected policy outlook) points to a slower pace of change, with perhaps only one or two quarter-point cuts now the base case assumption.

Each Fed gathering has been framed by politics. President Trump and treasury secretary Scott Bessant have hosted auditions for the big job, and the smart money is on a significantly more dovish economist taking over when Jerome Powell's term ends in May. That's likely to be one of the two Kevins, Messrs Hassett and Warsh. Investors have shivered at the prospect of a Fed in thrall to the White House and its quest for growth at all costs.



CRACKS IN THE GOP

11 months out from the midterms, things are starting to get dicey for the Republicans. The first rumblings of internal dissent have snowballed into consistent pushback on Capitol Hill. President Trump's iron grip over his party has broken over tariffs, healthcare guarantees and Jeffrey Epstein. Even GOP hardliners like Marjorie Taylor Greene (or Brown, if we're to adopt one of the president's weaker puns) are now prepared to stand up to the Oval Office.

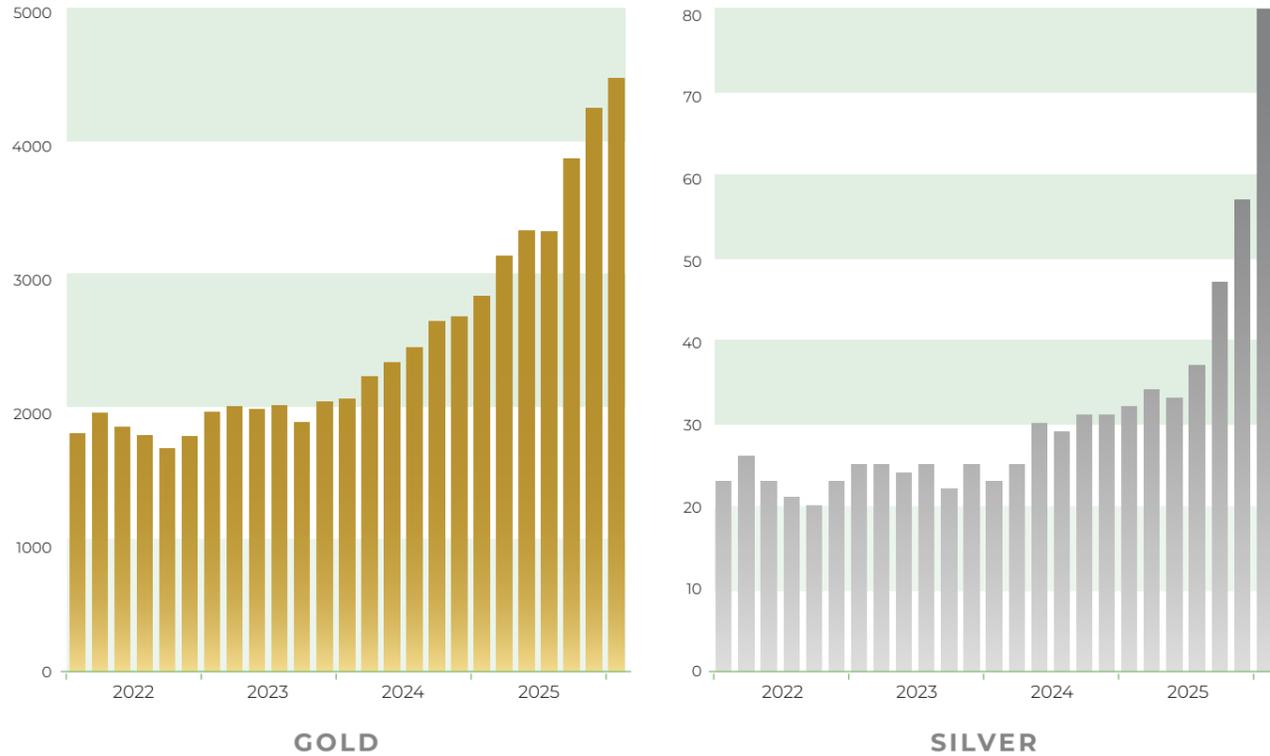
Energised by savvy governor campaigns in New Jersey and Virginia, as well as signs of a shrinking Republican lead in deep-red Tennessee, the Democrats found a coherent and effective rallying cry: affordability. From eggs to Xboxes, from housing to holidays, most Americans can agree this has got worse.

The Supreme Court's upcoming decision on tariffs is set to define the bounds of executive power. The government's argument rests upon a dubious interpretation of Carter-era emergency powers called IEEPA. Giving the executive branch free rein over legislative appropriations is a contentious issue to constitutional scholars, who predict the conservative justices will have no choice but to strike down the tariffs. But don't be fooled: the trade war is here to stay. The White House will simply pursue other workarounds to ensure that.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	3.75%	Dec 25
Inflation rate	2.7%	Nov 25
Unemployment rate	4.4%	Dec 25
GDP growth rate	4.3%	Q3 25

OUR STRATEGIST'S KEY CHART

GOLD AND SILVER'S REMARKABLE RUN



As the US dollar's status as the world's de facto safe-haven has waned, so the reputation of gold and other precious metals has increased. The chart above highlights gold and silver's remarkable run over the past three years. The price of gold has grabbed the headlines, but both have set record highs as the need for defensive holdings has increased alongside geopolitical risk and jitters in bond markets. Other factors are also at play, including a supply squeeze on silver, which has taken on new importance as a critical component in the electronics and computing sectors.

Allocations to safe-haven assets like these are an interesting proxy for risk appetite. The appeal of the safe-haven is that it provides a reliable store of value at times of uncertainty and dislocation. Investors looking to shield their reserves from the panoply of ongoing risks could double down on precious metals in the coming months.

Source: Investing.com

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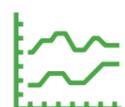
KEY DATES AND EVENTS

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.



21 JANUARY TRUMP V COOK

President Trump's efforts to remove Biden-appointee Lisa Cook from the Federal Reserve were blocked back in October, leaving Cook in her post until the case reached the highest court in the land. The hearing in late January is sure to have a massive impact on the Fed's independence from political sway. Since 1913, the barrier to firings has been "cause", a loosely defined guideline that has never been enforced by a president. Whether Cook's alleged mortgage fraud amounts to that is a question for the justices. Jerome Powell and his fellow governors will be watching anxiously as the search for Powell's successor begins. The US dollar will see its reputation as a stable and ordered financial fixture go on trial.



5 FEBRUARY ECB INTEREST RATE DECISION

Are the ECB looking up or down when it comes to interest rates? Policymakers have been transmitting mixed messages on that subject. Dovish members have called for further cuts to take borrowing costs below 2%, while the more hawkish Isabel Schnabel suggested a hike was on the cards before walking back her statement. As ever, President Christine Lagarde has advocated for caution. The euro fluctuated more than might have been expected in December, partly due to shifting rate expectations. And this year began with a set of German inflation numbers that were significantly softer than forecast. It will be up to the ECB to interpret these factors.



3 MARCH SPRING STATEMENT

Learning the lessons of last time, Rachel Reeves set an early date for the upcoming spring statement. That certainly limits the amount of time where her plans can go to pot. It also provides the Labour leadership an opportunity to present a united front and regain some semblance of narrative. Reeves and Starmer will certainly need it after a bruising 2025 and just a few months before the local elections. If all goes well between now and March, it's possible that the chancellor can carve out funds to placate backbenchers and get the economy moving again. As we saw before the autumn Budget, there's a very real scenario that would require another frantic repair job.

IN BRIEF: OCTOBER – DECEMBER 2025

GBP/USD RATES 2025		
MONTH	HIGH	LOW
October	1.35	1.32
November	1.32	1.3
December	1.35	1.32
Q4 Average	1.33	

Over the past 12 months the highest rate for GBP/USD has been 1.38 while the lowest has been 1.21.

GBP/EUR RATES 2025		
MONTH	HIGH	LOW
October	1.15	1.14
November	1.14	1.13
December	1.15	1.14
Q4 Average	1.14	

Over the past 12 months the highest rate for GBP/EUR has been 1.21 while the lowest has been 1.13.

EUR/USD RATES 2025		
MONTH	HIGH	LOW
October	1.18	1.15
November	1.16	1.15
December	1.18	1.16
Q4 Average	1.16	

Over the past 12 months the highest rate for EUR/USD has been 1.19 while the lowest has been 1.01.

MAJOR BANK CURRENCY FORECASTS

2026 MAJOR BANK FORECASTS - GBP/USD				
INSTITUTE	Q1 2026	Q2 2026	Q3 2026	Q4 2026
Barclays	1.33	1.33	1.33	1.33
BNP Paribas	1.3	1.3	1.29	1.3
Citi	1.3	1.25	1.23	1.24
Investec	1.31	1.31	1.34	1.35
JPMorgan	1.37	1.41	1.4	1.36
LBBW	1.39	1.41	1.42	1.44
Santander	1.3	1.29	1.28	1.28
Median	1.31	1.31	1.33	1.33
Minimum	1.3	1.25	1.23	1.24
Maximum	1.39	1.41	1.42	1.44

2026 MAJOR BANK FORECASTS - GBP/EUR				
INSTITUTE	Q1 2026	Q2 2026	Q3 2026	Q4 2026
Barclays	1.16	1.16	1.18	1.18
BNP Paribas	1.11	1.1	1.09	1.09
Citi	1.12	1.12	1.11	1.12
Investec	1.12	1.11	1.12	1.12
JPMorgan	1.16	1.18	1.16	1.14
LBBW	1.18	1.18	1.18	1.18
Santander	1.14	1.14	1.14	1.14
Median	1.14	1.14	1.14	1.14
Minimum	1.11	1.11	1.09	1.09
Maximum	1.18	1.18	1.18	1.18

2026 MAJOR BANK FORECASTS - EUR/USD				
INSTITUTE	Q1 2026	Q2 2026	Q3 2026	Q4 2026
Barclays	1.14	1.14	1.13	1.13
BNP Paribas	1.17	1.18	1.19	1.2
Citi	1.15	1.12	1.1	1.11
Investec	1.17	1.18	1.19	1.2
JPMorgan	1.18	1.2	1.2	1.2
LBBW	1.18	1.2	1.21	1.22
Santander	1.14	1.13	1.12	1.12
Median	1.17	1.18	1.19	1.2
Minimum	1.14	1.12	1.1	1.11
Maximum	1.18	1.2	1.21	1.22



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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 5TH JANUARY 2026.



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