



SMART CURRENCY BUSINESS

CAN ANOTHER NEW PRIME MINISTER SAVE THE POUND?

QUARTERLY FORECAST JULY – SEPTEMBER 2026

WILL THE NEXT LABOUR LEADER BE ABLE TO KICK-START THE ECONOMY?
CAN THE US DOLLAR REESTABLISH ITSELF AS THE WORLD'S DOMINANT CURRENCY?
WHY THE ENERGY CRISIS MAY LAST LONGER THAN EXPECTED
PLUS, EXCHANGE RATE FORECASTS FROM LEADING BANKS



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NOTE FROM THE MANAGING DIRECTOR

Summer announced itself with a blistering heatwave that swept across Europe, stirring memories of sun-drenched days when the world seemed to be changing before our eyes.

June marked ten years since the United Kingdom’s seismic vote to leave the European Union. Whatever you make of that decision, it has undeniably altered the path of this country, soon to have its seventh prime minister in just over a decade.

Upheaval was spreading through the Middle East, too. The price of oil surged as tankers waited to pass through the Strait of Hormuz. That it has normalised so quickly speaks to the massive efforts to ease the energy crisis, as well as this vital chokepoint’s significance for the global economy.

Political reality meant the war had to end at some point. In just three months, it single-handedly overturned economic outlooks and interest rate forecasts across the world. The lingering question that no expert can confidently answer is what happens next.

When push comes to shove, cash is (and always will be) king. Businesses can never hope to control global events. But by seizing control of the factors in their grasp – funding, forecasting and other essentials – it is possible to build resilience and set the foundations for growth.



Smart Currency Business continues to develop solutions that prioritise your cashflow. We’re particularly proud of recent updates to our stress-testing tools on SmartHedge PRO, which facilitate precise simulations of various scenarios. You can find more details on that further down this report.

We wish you and your business a prosperous summer. Please do get in touch should you require any assistance in the coming months.

Alex Bennett, Managing Director, Smart Currency Business

WHERE WILL RATES BE BY OCTOBER 2026?

Exchange rate predictions for the end of quarter three of 2026 and the possible impact on your budget. If you were changing £1 million for USD, the predictions carry a disparity of \$130,000 and for EUR a disparity of €60,000.

CURRENCY PAIRING	MIN. RATE	MAX. RATE	AMOUNT CHANGED	MIN-MAX VARIANCE
GBP/USD	1.28	1.41	£1 million	\$130,000
GBP/EUR	1.12	1.18	£1 million	€60,000
EUR/USD	1.13	1.2	€1 million	\$70,000

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 Q2 FORECASTS FARE AGAINST REALITY?

The great currency guessing game continued to confound some of the most highly educated economists around. Recent research conducted by our team found that four out of every ten exchange rate predictions made in the past decade have missed by more than 5% when made 3-12 months into the future. The average miss climbs to 7.3% if you look at forecasts made 12 months ahead of time.

It was therefore no surprise to see predictions made mere months ago miss the mark. At the risk of looking foolish, there is a pretty good chance the forecasts made in this document will also be proven wrong come October.

GBP/USD

The US dollar is back in a big way. Our last Quarterly Forecast showed major banks had hedged their expectations with an 11-cent range in forecasts for GBP/USD. That caution proved wise given the uncertainty that dominated the landscape back in April.

The dollar has been buoyed by a number of positive developments, including safe-haven flows, interest rate speculation and the AI frenzy. For the pound, the opposite is true, with negative pressure reinforced by political rupture and tensions in the bond market. Sterling slid into July at its lowest ebb since the end of 2025.

GBP/EUR

GBP/EUR broke through the key 1.16 resistance level it had been bumping up against for more than a year in June. Only one of the seven major banks featured in our last report predicted it would do so.

Until recently, the euro had been the big beneficiary of the US dollar’s malaise, leading to claims it might soon become the world’s de facto safe-haven currency. In reality, it wasn’t given enough of a boost by the European Central Bank’s (ECB) rate hike to take full advantage of political upheaval in Westminster, while renewed appetite for the dollar served to undermine the euro. Sterling posted a positive quarter thanks largely to persistent inflationary pressures and the prospect of corresponding action from Threadneedle Street.

EUR/USD

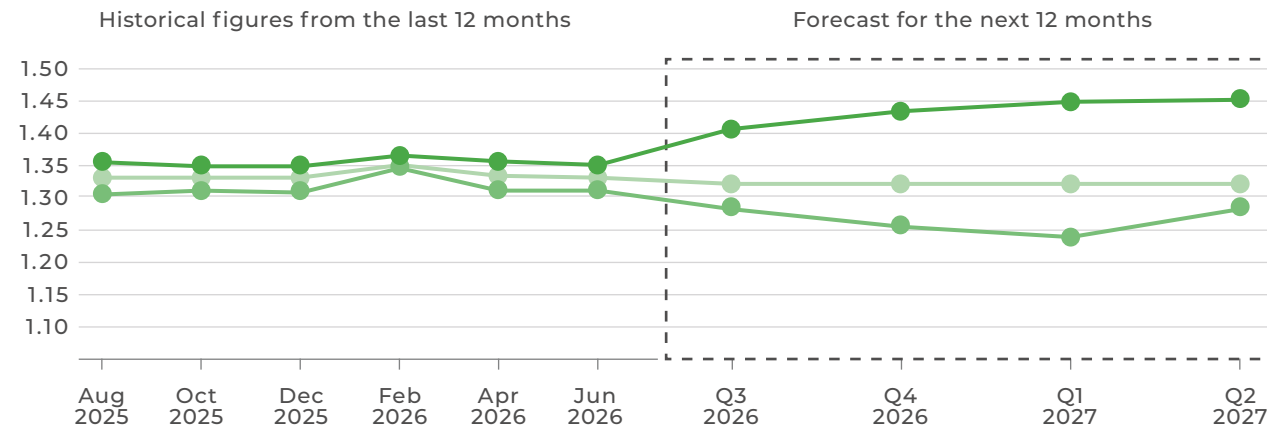
The past quarter was a game of two halves for the euro. After the initial shock of war in the Middle East had passed, the euro reached toward the heights it hit at the start of the year before falling back just as quickly.

EUR/USD fell to a 12-month low by the end of June, reflecting diverging outlooks for interest rates and for the American and eurozone economies. Low baseline growth in Europe sits in stark contrast to the optimism across the Atlantic, leading to the unusual scenario in which higher rates on the continent did not translate into a stronger currency.

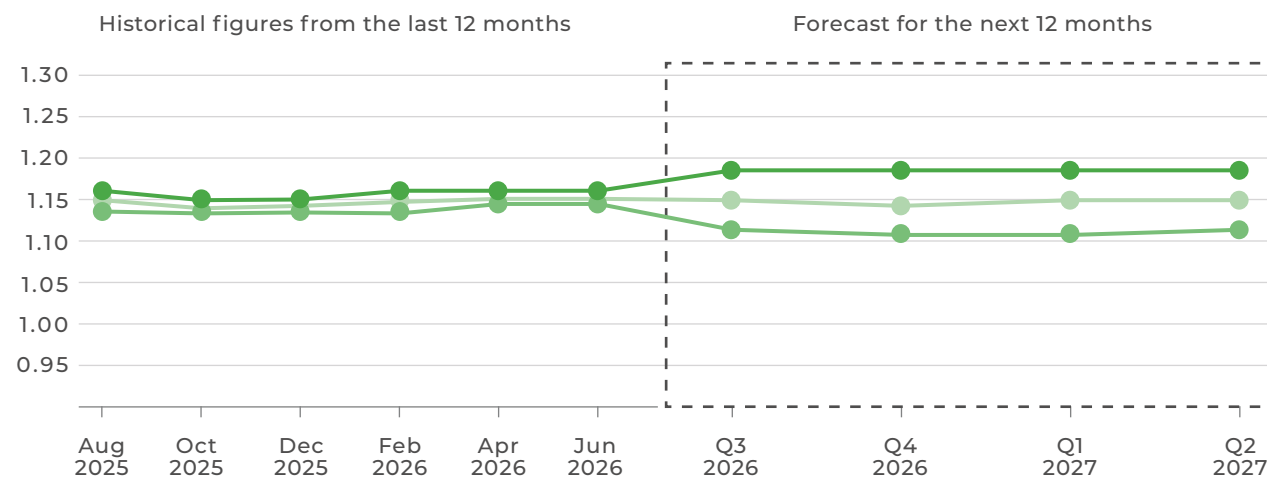


See the calendar on pages 6–7 for the most important, potentially market-moving events this quarter.

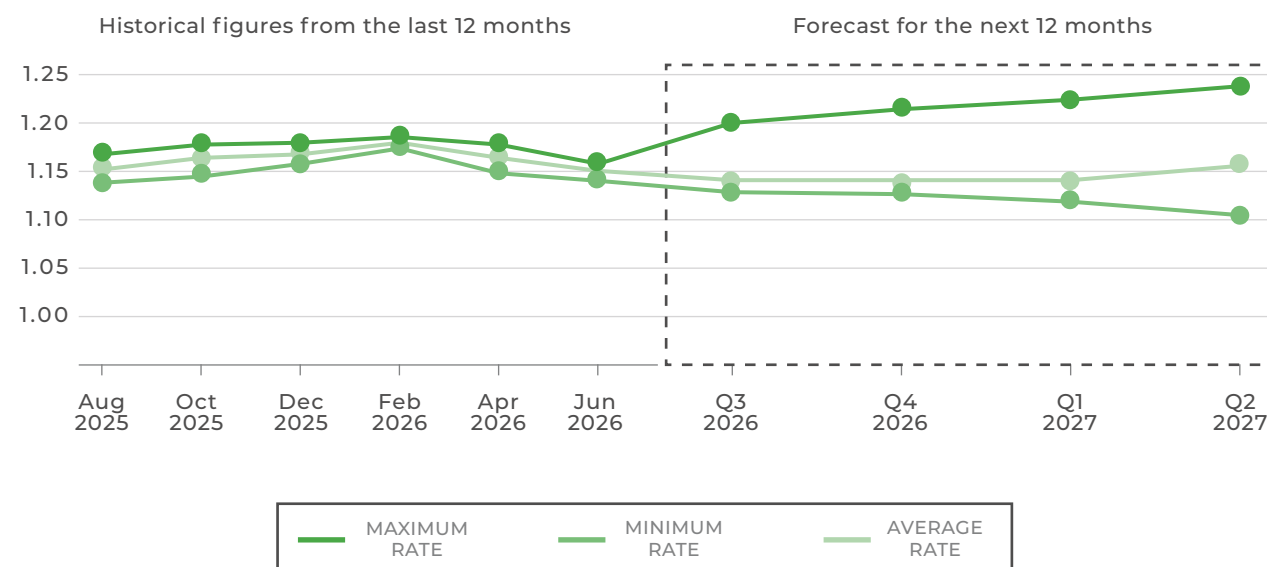
GBP/USD



GBP/EUR



EUR/USD



SOURCE: BLOOMBERG. ACCURATE AS OF 2ND JULY 2026.

SUMMARY

The past few months have been a very public disaster for advocates of military interventionism. Currency markets have been dominated by intense speculation over the Strait of Hormuz, often descending into sharp bouts of whiplash as good news one day would turn to bad news by the next morning.

There was once a time when Britain could brush off the struggles of the day and comfort itself with the idea that it was at least more stable than places such as Italy and Greece. Those days seem like a distant memory now. As Larry the cat prepares to greet his seventh PM, anyone selling pounds has been left counting the cost of a decade of upheaval.

Despite all the tension, July has started on an upbeat note in global markets. Optimism that restored oil flows would unlock renewed dynamism percolated into risk appetite. There have been a few bumps along the way, but the mood is positive heading towards the height of summer.

OPEN THE FLOODGATES

Oil traders breathed a deep sigh of relief when it became clear Washington was stepping back from the economic brink. Donald Trump's resolve wavered when he failed to deliver a decisive military blow that would force Iran to the negotiating table. By the end, the president was seemingly more intent on restoring oil flows than meeting any of his initial goals, like effectively curtailing the Iranian nuclear enrichment programme.

If Iran didn't understand the leverage it had over the global marketplace, it certainly does now. The regime now knows it possesses a tailor-made counterweight

against future military actions, and one that affects the entire planet. The incentive for it to slow traffic in the strait to bolster its negotiating position has never been greater.

AI GOES PUBLIC

The AI argonauts are sailing towards new horizons, but before they get there, financial reality has forced them to embrace the power of the stock market. OpenAI and Anthropic, two powerhouses of the large language model boom, are reportedly battling it out to go public. If you believe the media reports, we might get word of their IPOs soon, perhaps as early as September.

As it turned out, Elon Musk beat both to the punch. SpaceX, the sprawling satellite and communications giant that briefly made Musk the world's first trillionaire, is really an AI company wrapped in a spacesuit. Its grand ambition is to host data centres in orbit, a daring idea that captures the main question markets must assess: how much of this is realistic and how much is fanciful?

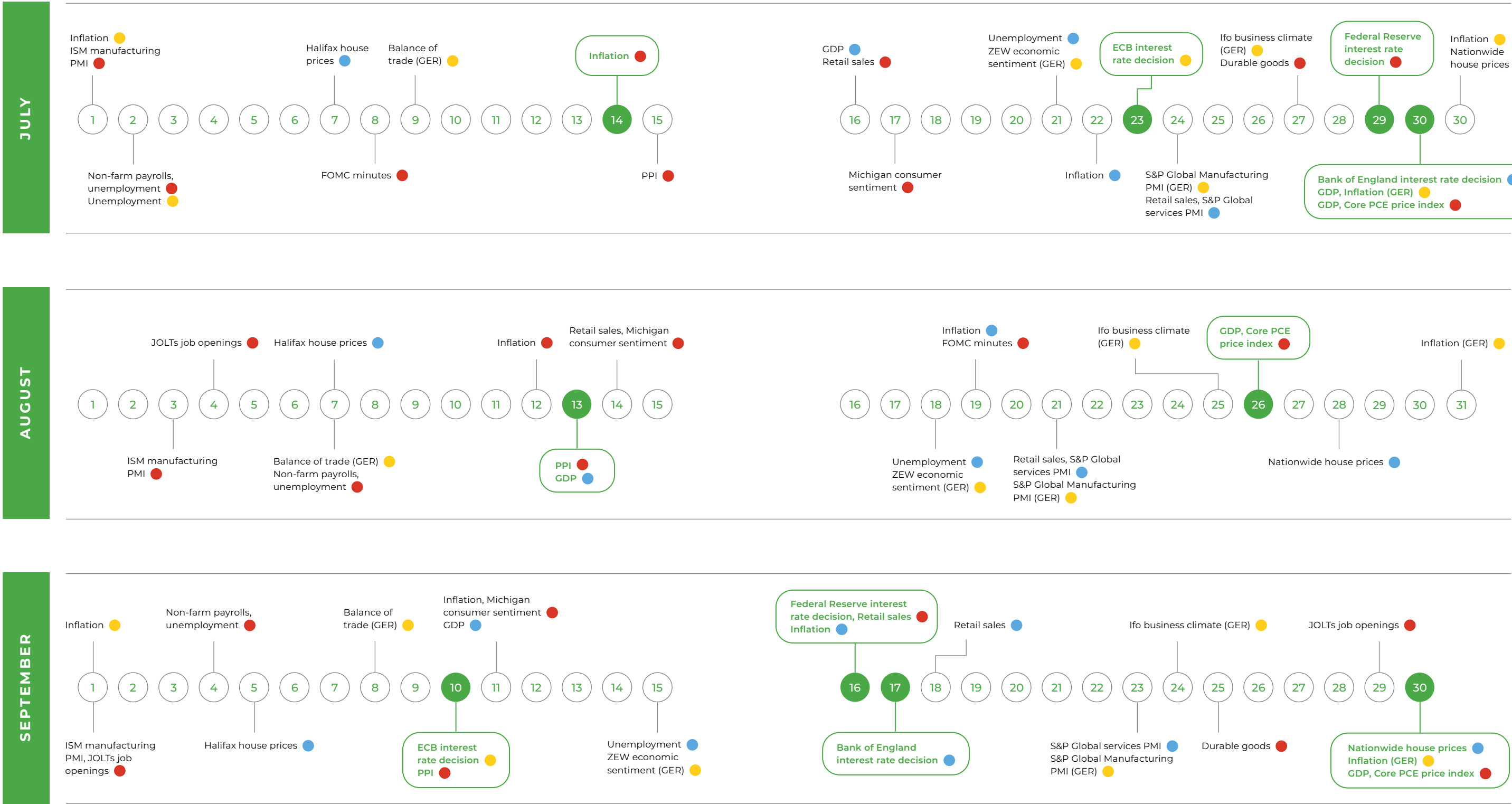
“The global economy faces deep currents of change — in technology and demographics, in geopolitics and trade, in climate — while also dealing with shock after shock.”

Kristalina Georgieva

MARKET-MOVING EVENTS THIS QUARTER

KEY ECONOMIC EVENTS Q3

UK USA EUR



UK ECONOMY

War in the Middle East came at just the wrong time for UK plc. Things had been looking up to start the year, only for higher prices to squeeze consumer spending and weigh on living standards, despite the UK recording the strongest growth in the G7 in the first quarter of 2026.

The headline figures that arrived were skewed by high energy prices and ultimately not as dire as had been feared. Inflation held steady below 3% across May and June, with high petrol prices offset by easing housing and accommodation costs. House prices and business investment have both fallen, although there are hopes this will represent a temporary blip rather than anything lasting.

Government borrowing costs spiked in May as the twin economic and political crises came to a head. Much has been made of the mutual antipathy between the bond market and Andy Burnham, so it was encouraging to see yields drop across the curve once oil prices returned to pre-war levels.

ON THE LOOKOUT

The energy crisis forced the Bank of England into a holding pattern, dashing consumer and corporate hopes that interest rates would fall sharply. Caution has been the understandable approach for the Bank in the past few months and this seems unlikely to change until the dust from the war has fully settled.

Inflationary pressures remain ‘in the pipeline’, Andrew Bailey warned. Two members of the Monetary Policy Committee voted to increase interest rates despite the prospect of peace in the Middle East. The situation remains fluid and the risks are skewed to the upside for interest rates at the July meeting.



KING OF THE NORTH

Makerfield marked the end of the line for Sir Keir Starmer. Nobody could accuse the prime minister of abandoning his mandate lightly, yet in the end, damaging errors, poor PR and an absence of quick results saw a public hungry for change force Labour’s hand.

The prime minister’s inglorious ending at the Downing Street lectern has likely ushered in the Andy Burnham era. A superior communicator to Starmer, the former Greater Manchester mayor would do well to dwell on the increasingly fleeting pull of popularity. Defeating Reform for good will require tangible results at a time when many tax and spend policies might prove deeply unpopular with the electorate and the bond squad.

Wes Streeting stood down from his leadership bid, perhaps in the hope that his fealty might be rewarded with a senior cabinet position. The jostling for positions remains intense, particularly in the Treasury. Allies have promoted the current chancellor, Rachel Reeves, as a reliable continuity candidate, yet the left of the party would rather see a more progressive economic mind in situ, perhaps even someone like Ed Miliband. However this all shakes out, the next prime minister will inherit a fractured and weary nation with few easy solutions at their disposal.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	3.75%	Jun 26
Inflation rate	2.8%	May 26
Unemployment rate	4.9%	Apr 26
GDP growth rate	0.6%	Q1 26

EU ECONOMY

The eurozone economy experienced inflationary pressures similar to those that dogged it in the wake of Russia’s invasion of Ukraine. Prices have risen fast across the bloc, although with the noteworthy caveat that these are situational rather than structural pressures.

After two consecutive years of contraction, Germany’s economy finally returned to growth in 2025 and the first quarter of the year. However, nobody is jumping for joy with a paltry 0.4%.

Sentiment improved in June as consumers, businesses and banks celebrated the fragile détente in the Middle East. Having stalled alongside the conflict, business activity is still falling, but at a slower rate than before. There is a gloom sitting over the eurozone that isn’t fully justified by the numbers. Most economists agree these are uninspiring but should not lead to despair just yet, given the prospect of calmer waters ahead.

ECB MOVES FIRST

The ECB was the first of the world’s major rate setters forced into a hike by the energy crisis. Policymakers increased interest rates for the first time since 2023 in June, but terminal rates remain well below those of its peers in the UK and across the Atlantic.

Christine Lagarde has kept the door open for further action, even if cooling prices have made that less likely. In a recent hearing, the ECB president observed that this year’s inflationary pressures were of a “different magnitude” to the post-pandemic surge. Its own data forecasts predicts headline inflation will cool to 2.3% next year, close enough, you would think, to promote growth with only modest curbs.



AWAITING THE PAY-OFF

The contagion of discontentment has swept western Europe and asked big questions of the German coalition, already teetering along ideological fault lines. Friedrich Merz responded with a grand gesture, promising that his government would agree on sweeping reforms to pensions, tax and insurance by the end of the summer. His pledge came with a timeline intended to counteract the ominous threat from the Alternative für Deutschland (AfD), but one that tacitly acknowledges the fear and insecurity that shrouds Berlin.

Champions of liberalism will look at the numbers and wince. A quarter of the European Union’s electorate now say they will vote for a far-right party given the chance, while Keir Starmer’s unpopularity at the time of his departure was dwarfed by that of Emmanuel Macron and Merz.

More positively, the EU’s stalwart defence of Ukraine is finally paying off, with Russia on the back foot more than four years after the war began. There is even talk that Vladimir Putin will soon be forced round the negotiating table. It may take a big victory like this to put the wind back in centrist sails.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	2.25%	Jun 26
Inflation rate	2.8%	Jun 26
Unemployment rate	6.2%	May 26
GDP growth rate	-0.2%	Q1 26

US ECONOMY

Forget the threat of war and high gas prices. The American economy continues to power ahead, creating jobs and growth to ease the general funk of consumers at large. Retail sales jumped in May, further evidence that households were riding out the storm of war.

That's not to downplay those concerns. Survey data suggests that people still feel poorer than a year before, even if the stock market remains the envy of the world. The US economy also remains the only major jurisdiction generating consistent long-term growth, leaving the UK and the eurozone in the dust.

The conflict with Iran came home to American households almost immediately via eyewatering prices at the pump. While America's status as a net energy exporter helped shield it from the worst of the fallout, the average price per gallon of gasoline topped \$4 nationwide, the first time it has done so since 2022.

IN THE HOT SEAT

Kevin Warsh, the Federal Reserve's freshly minted chair, has quickly found himself under intense pressure to deliver rate cuts from the White House. The reputations of both Warsh and the Fed were on the line at his first press conference in June, with markets watching closely to see if the Jay Powell era would be quickly upended.

In the end, many were surprised by comments that were widely viewed as robustly hawkish. Tough talk about high prices burdening the American people helped reassure those who feared for the Fed's future. It was a good start, but it takes a brave man to resist the president's pressure.



SLIDING TOWARDS NOVEMBER

Donald Trump continues to dominate acolyte, foe and the American news cycle, but the past three months have also shown that there is scope for pushback, even among Republicans.

The best example of this was the defeat of the president's so-called anti-weaponisation fund, a scheme so antithetical to the spirit (if not strictly the word) of the constitution that it simply had to go. It's possible to view these defeats as the gradual narrowing of Trump's sphere of influence. His name will no longer feature on the façade of the Kennedy Center. Efforts to spruce up Washington's reflecting pool ended in algae-tinged embarrassment. Iran hawks broke ranks to criticise the ceasefire deal, which they argued ceded more leverage than the Obama-era agreement.

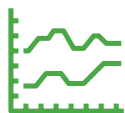
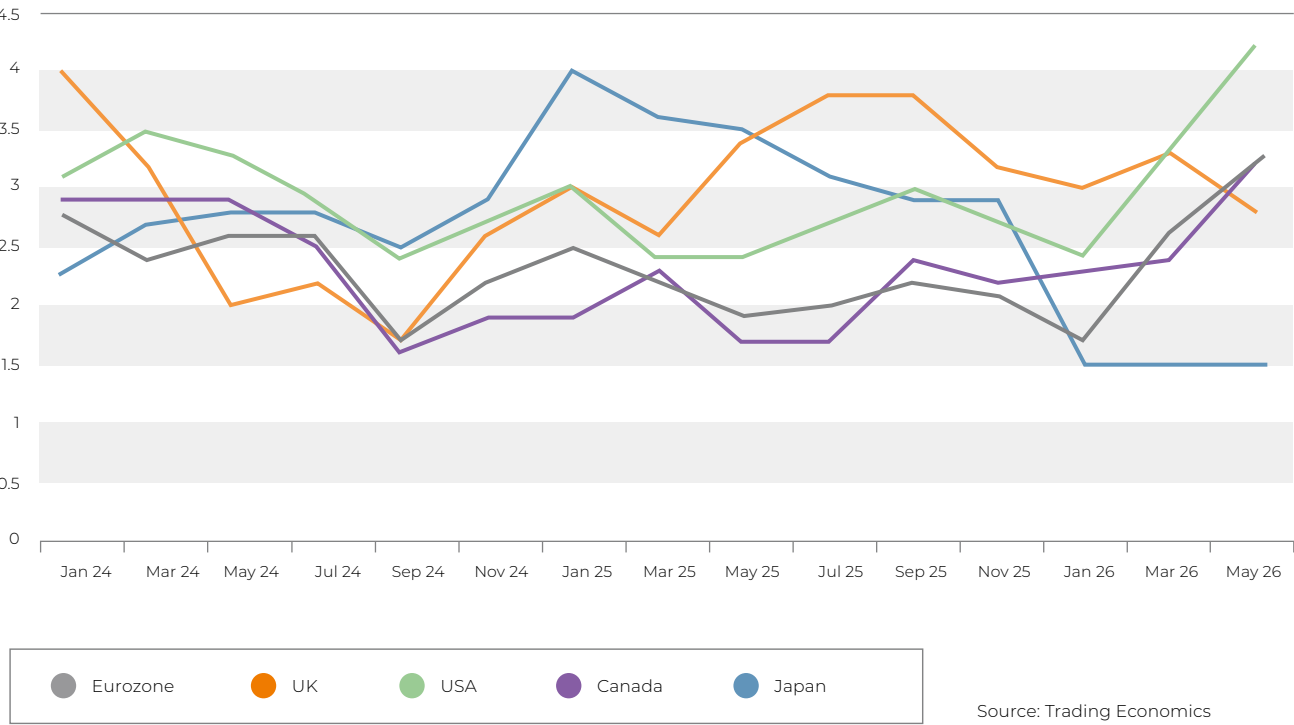
Trump is determined to draw a line under the Iran conflict before November and the midterms. The problem for him is that these things have a habit of defining a president, even if he may wish to pin the failure on his vice president. As America celebrates its semiquincentennial (250 years, to you and me), the White House is struggling to project the same strength and stability that marked its finest moments.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	3.75%	Jun 26
Inflation rate	4.2%	May 26
Unemployment rate	4.2%	Jun 26
GDP growth rate	2.1% *	Q1 26

* Annualised

OUR STRATEGIST'S KEY CHART

CONSUMER PRICE INFLATION, 2024-2026



The global economy has been stung by several run-ins with inflation since the pandemic. On each occasion the previous threat appeared to fade, a new one has emerged. This time last year we were talking about tariffs, but now it's the impact of higher energy prices.

Headline consumer price inflation has been on the rise across most developed economies in recent months, enough in some cases to revive discussion around more restrictive interest rates. This is a problem for businesses and consumers alike. Input costs are rising across sectors, making it more costly to do business as well as eating into purchasing power. Fuel is also particularly tricky given its role in everything from production to retail. Even a short period in which companies are forced to deal with higher prices could lead to a protracted period of inflation. Prices are slow to fall, which means that inflation is likely to remain above target for many central banks even if the interim agreement between Iran and the United States holds.

SPECIAL FEATURE

SMARTHEDGE PRO

Our treasury solution **SmartHedge PRO** continues to develop, with new stress-testing capabilities that give your business precise control over its cashflow.

Finance teams can now model various situations at once, adjusting key variables at the click of a button. The platform simulates the impact each scenario would have on your key financial metrics, giving you clarity and confidence around strategic decisions.

Plus, we're offering complimentary executive packs that synthesise different models and present all the eventualities in a simple, board-ready report.

Call our team on **020 7898 0500** to try **SmartHedge PRO** for yourself.



SPECIAL FEATURE

CASH IS THE KING

Tracking revenue matters, but cash is the only thing that can fund new investments, reduce liabilities and keep the lights on when times are tough. It is the lifeblood of any healthy business.

The problem is that many CEOs and CFOs are unable to take control of the variables that shape cashflow. Setting margins precisely, controlling stock levels and really understanding the impact a change in exchange rates would have can be the difference between a successful business and a potential disaster.

Charles Purdy, CEO of Smart Currency Group, is sharing all his insights and expertise from a career of cashflow success. He believes that every business has the ability to master its cashflow with the right tools, discipline and advice.

Scan the QR code to follow Charles on LinkedIn, where you can read in-depth insights and success stories from the world of UK SMEs.



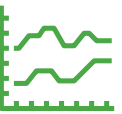
KEY DATES AND EVENTS

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.



16 JULY LABOUR LEADERSHIP DEADLINE

When Keir Starmer set out the timeline for his departure, currency markets were quick to circle 16 July. All nominations to run against Andy Burnham to be the next prime minister must be in by this day, meaning if nobody decides to throw their hat into the ring, the ‘King of the North’ would be in Number 10 the following week. Few people expect anyone to challenge, let alone come close to securing the party’s nomination. But it is still a vital moment in the pound’s near-term outlook and carries with it complex implications. Replacing a centrist with a more traditional Labour figure will test the creaky public finances. At any rate, a new era will soon be upon us.



27-29 AUGUST JACKSON HOLE SYMPOSIUM

What did the world’s heavyweight economists and central bankers make of the past three months? Their annual summer trip to the Wyoming wilderness should give us some answers. At the height of the traditional August lull, the interviews and seminars provide unusually clear insight into their thinking and how their thoughts might shape the world in the year to come. It may also be an unusually fractious meeting. Tensions are running high after America’s intervention in the Middle East caused policymakers to quickly pivot from their easing programmes to more restrictive decisions.



6-20 SEPTEMBER GERMAN STATE ELECTIONS

September’s upcoming batch of German state elections features Mecklenburg-Vorpommern and Saxony-Anhalt. These states in the former East Germany form the bedrock of AfD support and could spell trouble for Friedrich Merz. With polls indicating the far-right would gain a majority of votes were a nationwide election held tomorrow, anything short of total victory would represent a welcome ray of light for the Christian Democratic Union (CDU). A drubbing at the hands of the AfD remains the most likely outcome, though, as discontentment with the economy and Merz’s cautious style take hold.

IN BRIEF: APRIL – JUNE 2026

GBP/USD RATES 2026		
MONTH	HIGH	LOW
April	1.36	1.32
May	1.36	1.33
June	1.35	1.32
Q2 average	1.34	

Over the past 12 months the highest rate for GBP/USD has been 1.38 while the lowest has been 1.3.

GBP/EUR RATES 2026		
MONTH	HIGH	LOW
April	1.16	1.15
May	1.16	1.15
June	1.16	1.15
Q2 average	1.15	

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 2026		
MONTH	HIGH	LOW
April	1.18	1.15
May	1.18	1.16
June	1.16	1.14
Q2 average	1.15	

Over the past 12 months the highest rate for EUR/USD has been 1.2 while the lowest has been 1.14.

MAJOR BANK CURRENCY FORECASTS

2026 MAJOR BANK FORECASTS - GBP/USD				
INSTITUTE	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Barclays	1.33	1.36	1.37	-
Citi	1.31	1.31	1.31	1.31
Commerzbank	1.33	1.34	1.36	1.36
JPMorgan	1.3	1.27	1.29	1.28
LBBW	1.41	1.44	1.45	1.46
Societe Generale	1.28	1.26	1.24	-
Wells Fargo	1.3	1.29	1.29	1.31
Median	1.31	1.31	1.31	1.31
Minimum	1.28	1.26	1.24	1.28
Maximum	1.41	1.44	1.45	1.46

2026 MAJOR BANK FORECASTS - GBP/EUR				
INSTITUTE	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Barclays	1.15	1.16	1.16	-
Citi	1.16	1.15	1.15	1.15
Commerzbank	1.12	1.12	1.14	1.14
JPMorgan	1.14	1.12	1.15	1.16
LBBW	1.18	1.18	1.18	1.18
Societe Generale	1.12	1.11	1.11	-
Wells Fargo	1.15	1.14	1.12	1.12
Median	1.15	1.14	1.15	1.15
Minimum	1.12	1.11	1.11	1.12
Maximum	1.18	1.18	1.18	1.18

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 2ND JULY 2026.

2026 MAJOR BANK FORECASTS - EUR/USD				
INSTITUTE	Q3 2026	Q4 2026	Q1 2027	Q2 2027
Barclays	1.16	1.17	1.18	-
Citi	1.13	1.13	1.14	1.14
Commerzbank	1.18	1.19	1.2	1.2
JPMorgan	1.14	1.13	1.12	1.1
LBBW	1.2	1.22	1.23	1.24
Societe Generale	1.14	1.13	1.12	-
Wells Fargo	1.13	1.13	1.14	1.16
Median	1.14	1.13	1.14	1.16
Minimum	1.13	1.13	1.12	1.1
Maximum	1.2	1.22	1.23	1.24



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2. Get expert advice and support tailored to your needs.
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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

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Words by Jonathan Cook