SMART CURRENCY BUSINESS

WILL INFLATION RISE FURTHER AS WE GO BACK TO 'NORMAL'?

QUARTERLY FORECAST
JULY – SEPTEMBER 2021

EXTREME PREDICTIONS FROM MAJOR BANKS

HOW WILL INFLATION IMPACT CURRENCIES?

WHAT WILL THE CENTRAL BANKS DO NEXT?

WILL COVID-19 AND BREXIT AFFECT STERLING?

smart CURRENCY BUSINESS

Business Moneyfacts Awards 2021 FINALIST

Nominated finalists in the following categories at the 2021 Business Moneyfacts Awards:

- ✓ Best International Solution Provider
- ✓ Best Business FX Provider

+44 (0)20 7898 0500 | info@smartcurrencybusiness.com

BACK TO 'NORMAL'?

The government has completed its four-step plan to ease COVID-19 restrictions, the economy has almost fully reopened and we nearly have our old lives back again – but is everything truly back to 'normal'?

Many uncertainties surrounding the COVID-19 situation, the Delta variant, Brexit, decisions from central banks and a host of other factors will continue to impact currencies around the globe.

And now we have above-normal inflation, with every central bank predicting (or hoping) that this is transitory in nature. If it isn't - and let's note that the UK has reduced its pool of available labour by closing its borders to Europe, which is driving labour costs up and is likely to be long-term rather than transitory - then the economic ride could be very rocky. This will have a dramatic effect on exchange rates, and it is impossible to predict any currency movements at this moment in time.

At Smart Currency Business, it's our view that exchange rate movements are unpredictable. It's for this reason that we advocate a risk management approach to currency, and I would like to reassure you that Smart is here to help with this.

As well as providing guidance to manage your currency risk, we offer additional services that will help your business navigate a post-Brexit world, detailed at the end of this document.

Please read through and contact us. We'd be very happy to hear from you. From me and the team at Smart Currency Business, we wish you good health and the best for your business.

Alex Bennett
Managing Director, Smart Currency Business

WHERE WILL YOUR CURRENCY BE BY Q4?

Rate predictions for quarter four of 2021 (October-December) and the possible impact on your budget. If you were exchanging £1 million for USD, predictions carry a disparity of $170,000, and for EUR a disparity of €80,000.

CURRENCY PAIRING	MIN. RATE	MAX. RATE	AMOUNT CHANGED	MIN-MAX VARIANCE
GBP/USD	1.34	1.51	£1 million	$170,000
GBP/EUR	1.14	1.22	£1 million	€80,000
EUR/USD	1.13	1.32	€1 million	$190,000

IN BRIEF: APRIL – JUNE 2021

GBP/USD RATES 2021			
MONTH	AVERAGE	HIGH	LOW
April	1.3840	1.4010	1.3669
May	1.4086	1.4234	1.3800
June	1.4018	1.4250	1.3786

Over the past 12 months, the highest rate for GBP/USD has been 1.4250 while the lowest has been 1.2463.

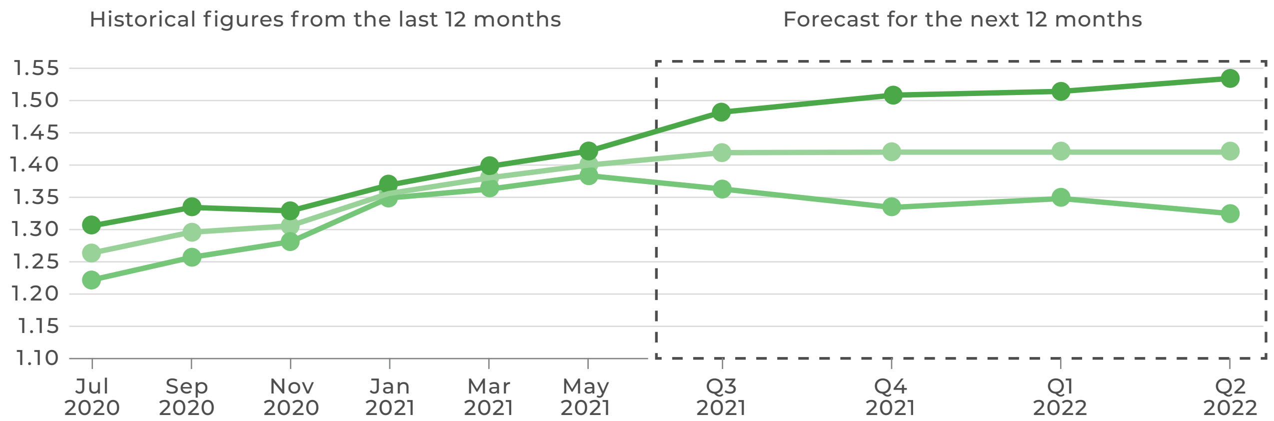
EUR/USD RATES 2021			
MONTH	AVERAGE	HIGH	LOW
April	1.1969	1.2150	1.1712
May	1.2147	1.2267	1.1985
June	1.2038	1.2255	1.1845

Over the past 12 months, the highest rate for EUR/USD has been 1.2350, while the lowest has been 1.1255.

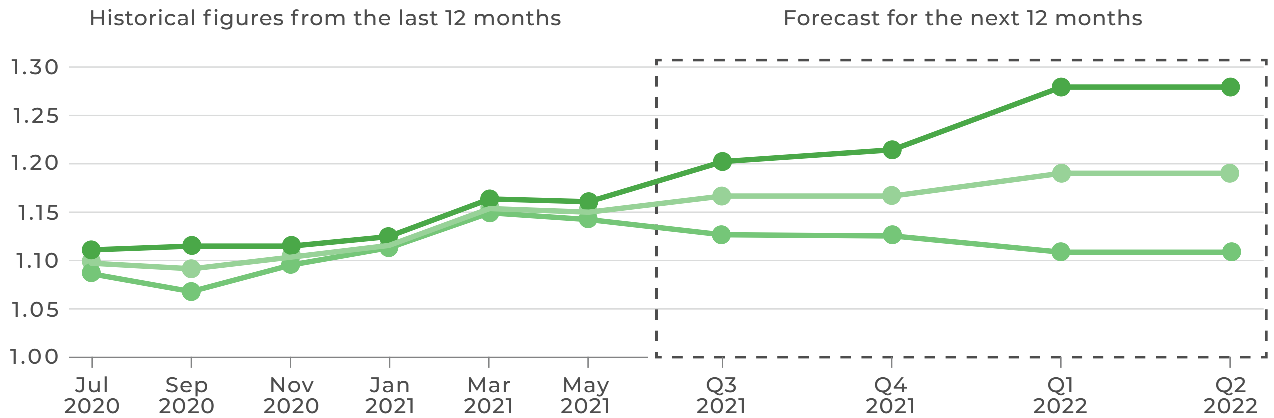
GBP/EUR RATES 2021			
MONTH	AVERAGE	HIGH	LOW
April	1.1560	1.1804	1.1466
May	1.1593	1.1683	1.1474
June	1.1641	1.1726	1.1566

Over the past 12 months, the highest rate for GBP/EUR has been 1.1804, while the lowest has been 1.0761.

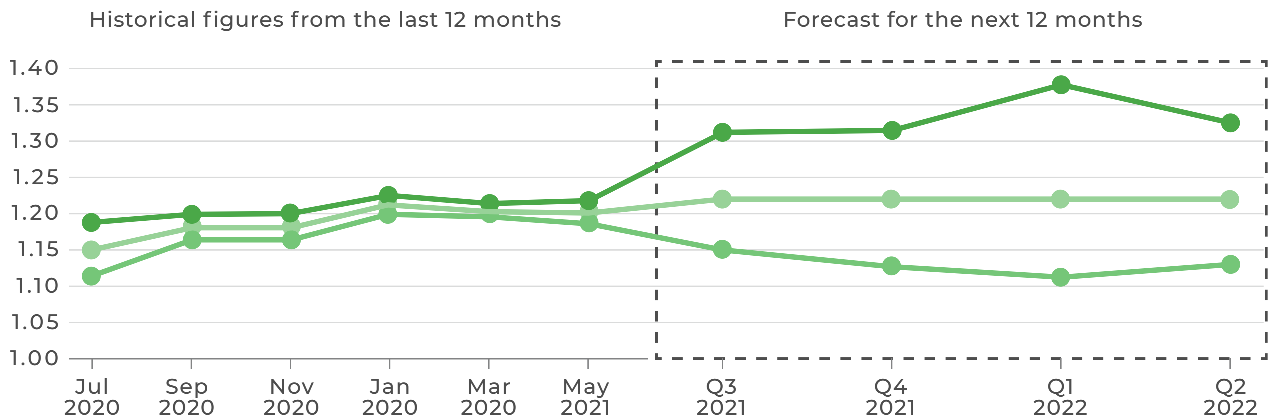
GBP/USD



GBP/EUR



EUR/USD



MAXIMUM RATE | MINIMUM RATE | AVERAGE RATE

SOURCE: BLOOMBERG. ACCURATE AS OF 8 JULY 2021.

SUMMARY

After a rocky start to 2021 followed by a gradual easing of restrictions, the last stage of the government's plan has now come into effect. The vaccine rollout continues to steam forward, and the economy is showing signs of recovery.

However, as we've learnt from the past year and a half, recovery is rarely straightforward. There are plenty of factors, at home and abroad, that will continue to impact currencies during the coming weeks and months.

Inflation is the word on everyone's lips this quarter. The Bank of England, Federal Reserve and the European Central Bank have all taken the stance that higher prices are 'transitory', meaning that recent comments about monetary policy have mostly erred on the side of caution. However, a slight 'hawkish' shift in tone from the US Federal Reserve ('Fed') in June suggests that US policymakers could begin to discuss tapering quantitative easing and hiking interest rates ahead of their global counterparts.

Despite recent positive economic data, the UK economy is entering a sensitive period due to the rollback of the furlough scheme, which will come to an end in September. As government support winds down, companies will be forced to assess if they can survive without it and maintain employment levels.

Eurozone recovery remains fragile, especially as the economy potentially faces another lost summer of tourism. A difference in outlook between the Fed and European Central Bank has weakened the euro against the dollar, and if this gap continues to widen, then the euro could continue to suffer.

The end of this quarter is set to mark a huge turning point for the EU, as German Chancellor Angela Merkel steps down from the position after 16 years. The rhetoric surrounding this will ramp up as election day in Germany on September 26 approaches.

Amidst ongoing uncertainty, we hope that this document will reassure you that measures can be taken to protect your business. We'd encourage you to take a look at our useful 'Resources' section at the back for more information about how we can help.

> "Neither a wise man nor a brave man lies down on the tracks of history to wait for the train of the future to run over him."
> Dwight D. Eisenhower, 34th US President

UK-EU TENSIONS

Although COVID-19 has dominated the political and economic spectrum for over a year, Brexit is still a factor that could impact the currency market going forward. At the end of June, the EU agreed to extend its exemption on customs checks on chilled meat shipments to Northern Ireland by three-months. This could also delay a flare-up of tensions between the two sides, due to different ideas about how the Northern Ireland protocol should operate. As the 3-month grace period comes to an end, we may hear more about talks between the UK and EU.

BANK OF ENGLAND

During his annual Mansion House speech published at the beginning of July, Bank of England ('BoE') Governor, Andrew Bailey, said that higher UK inflation is set to continue throughout the year in the UK as the economy recovers from the COVID-19 crisis. Reiterating the Bank's stance, he said that higher inflation is likely to be temporary and that it is important that economic recovery is not undermined by a premature tightening of monetary policy. He, did, however, add that measures would be taken if inflation does not fall as expected.

This 'dovish' or cautious message from Bailey caused the pound to weaken. Sterling will be influenced by the rhetoric surrounding inflation and monetary policy over the coming weeks and months. Higher inflation is associated with hiking interest rates, and higher interest rates can attract foreign investment, which is likely to increase demand for the pound.

The Bank's outgoing Chief Economist, Andy Haldane, adopted a slightly different view to Bailey, warning that inflation could rise to 4% over the coming months and that the economy is at risk of 'overheating'. However, Haldane was the only BoE official in the Monetary Policy Committee to call for a reduction to quantitative easing in the June meeting.

UK ECONOMY

GDP figures released at the end of June showed a 1.6% decline quarter-on-quarter for the first quarter of 2021. However, PMI figures for June struck a more promising note, signalling the fastest rate of increase in private sector activity since June 2006 due to the reopening of the economy, which bodes well for the coming months. Business confidence also jumped in the second quarter of this year to its highest level since 1973. However, at the start of July, the government began winding down the furlough scheme and business leaders warn that there could be negative implications.

OUR STRATEGIST'S ANALYSIS

Higher salaries, increasing unemployment, shortages of certain types of workers, disruption to international goods into and out of the UK, plus significant increases in inflation make the picture for sterling over the next three, six and twelve months murky and impossible to predict. Recent movements have been somewhat benign and the trading range against key currencies limited. However, this shouldn't lull you into believing that this is the new normal. With over twenty years of experience behind us, we know that this will not last. Predicting whether sterling will strengthen or weaken is an impossible task, given so many uncertainties here and abroad.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	0.1%	Jun/21
Inflation rate	2.5%	Jun/21
Unemployment rate	4.7%	Apr/21
GDP growth rate	-1.6%	Mar/21

EUROPE - COVID-19

With the Delta variant becoming more prevalent in Europe, there are worries over its spread and how this may affect the easing of restrictions. Whilst nearly 70% of European adults have now received their first dose, Europe is still behind the UK. The race is on to administer vaccines as quickly as possible, with more intensive border checks and tracking and tracing introduced to buy some time. This puts another summer of tourism in jeopardy. The likes of Greece and Portugal rely on visitors to fuel their economies and with more stringent rules placed on British tourists and those from elsewhere, the wider European economy could be greatly impacted.

ECB

The European Central Bank ('ECB') continues to monitor inflation in the Eurozone. However, it could be said that whilst other central banks have begun to hint at a shift in approach, ECB officials have remained at the more 'dovish' end of the spectrum, sticking to their view that higher inflation is transitory.

The ECB recently changed its inflation target and will now tolerate inflation above 2%, which marks a shift away from the previous aim of keeping it 'just below' 2%. This suggests that the Bank will maintain its 'ultra-loose' monetary policy for some time. As well as this, Eurozone interest rates continue to be negative.

Recent data feeds into the ECB's view that higher inflation is down to transitory factors and suggests that the ECB may be slower to tighten monetary policy in comparison to others, such as the Fed. If the gap continues to widen between the two central banks, this will put pressure on the euro against the dollar.

ECB President, Christine Lagarde, recently quelled concerns that the Eurozone's huge stimulus programme is a risk, arguing that the recovery is still fragile. She said, "we agreed to maintain these measures until at least March 2022, and in any case, until we judge that the coronavirus crisis phase is over."

GERMAN ELECTION

The German federal election is due to take place at the end of September, which marks a huge turning point for Germany and Europe as a whole. Angela Merkel will depart after 16 years as Germany's longest-serving leader. Each of the main parties has very different agendas and visions for the future, however, none are on course to achieve a full majority, so Germany is likely to be governed by another coalition. Merkel's departure will make France's Macron Europe's most important leader, which could mean a huge shift in how the EU operates.

OUR STRATEGIST'S ANALYSIS

Time for a change in Germany, the European economic powerhouse. Governance isn't expected to change, but if it does, this will have a negative effect on the euro in the short term. Europe is likely to handle the effects of COVID-19 better than others as labour is still able to move freely. Many of those workers who used to come to the UK are now heading north and will boost the northern European economies. But as noted, southern Europe is very dependent on tourism, so it's a mixed bag. Short to medium term, given the size of the European economy, the euro is likely to maintain a quasi-safe haven status. However, this could change in an instant if the ECB decides to increase its quantitative easing programme, which is a possibility, albeit small.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	0.0%	Jun/21
Inflation rate	1.9%	Jun/21
Unemployment rate	7.9%	May/21
GDP growth rate	-0.3%	Mar/21

US ECONOMY

The non-farm payrolls report for June showed that the US economy added 850,000 jobs, the strongest job growth in 10 months and a vast improvement compared to April and May's figures. This was led by the leisure and hospitality industry, which has been given a boost since the easing of COVID-19 restrictions. It is still below pre-pandemic employment numbers, however, and the unemployment rate also rose slightly – a reminder that the economy still has some way to go before recovering fully. Despite a largely positive report, the dollar paid attention to the more negative details and weakened as a result. The greenback could continue to react to news on the US' economic recovery in the weeks and months ahead.

FEDERAL RESERVE

At its June meeting, the Fed left interest rates unchanged as expected and stuck to its mandate that higher inflation is transitory. It expressed the view that due to last year's weak demand and the supply-chain issues following lockdowns, inflation would be higher than normal during 2021 before ultimately coming back down next year. Fed Chair, Jerome Powell, also said that COVID-19 variants remain a risk to the US economy and that inflation could turn out to be higher and "more persistent" than expected.

However, the comments that followed had a 'hawkish' and more upbeat tone, indicating that the health situation had improved and that officials would begin to discuss steps to reduce bond purchases. The Fed's new projections also suggest that two rate hikes are expected in 2023, which is more optimistic than the original projection of 2024.

This slight shift from the Federal Reserve boosted the dollar against a basket of currencies, due to the supposition that the Fed will be tapering post-pandemic support for the US economy more rapidly than other central banks.

COVID-19

The US vaccination programme has been a success so far, with nearly 50% of the population fully vaccinated at the end of June. However, the Delta variant poses a threat to the US and globally, especially in poorer countries and those with a slower vaccine rollout. Due to this, the dollar has recently benefitted from its status as a 'safe-haven' currency – a currency that investors turn to in times of uncertainty. If the Delta variant continues to gain momentum worldwide, the dollar could continue to strengthen. Alternatively, this could be outweighed by the increasing pace of vaccine rollouts in many countries.

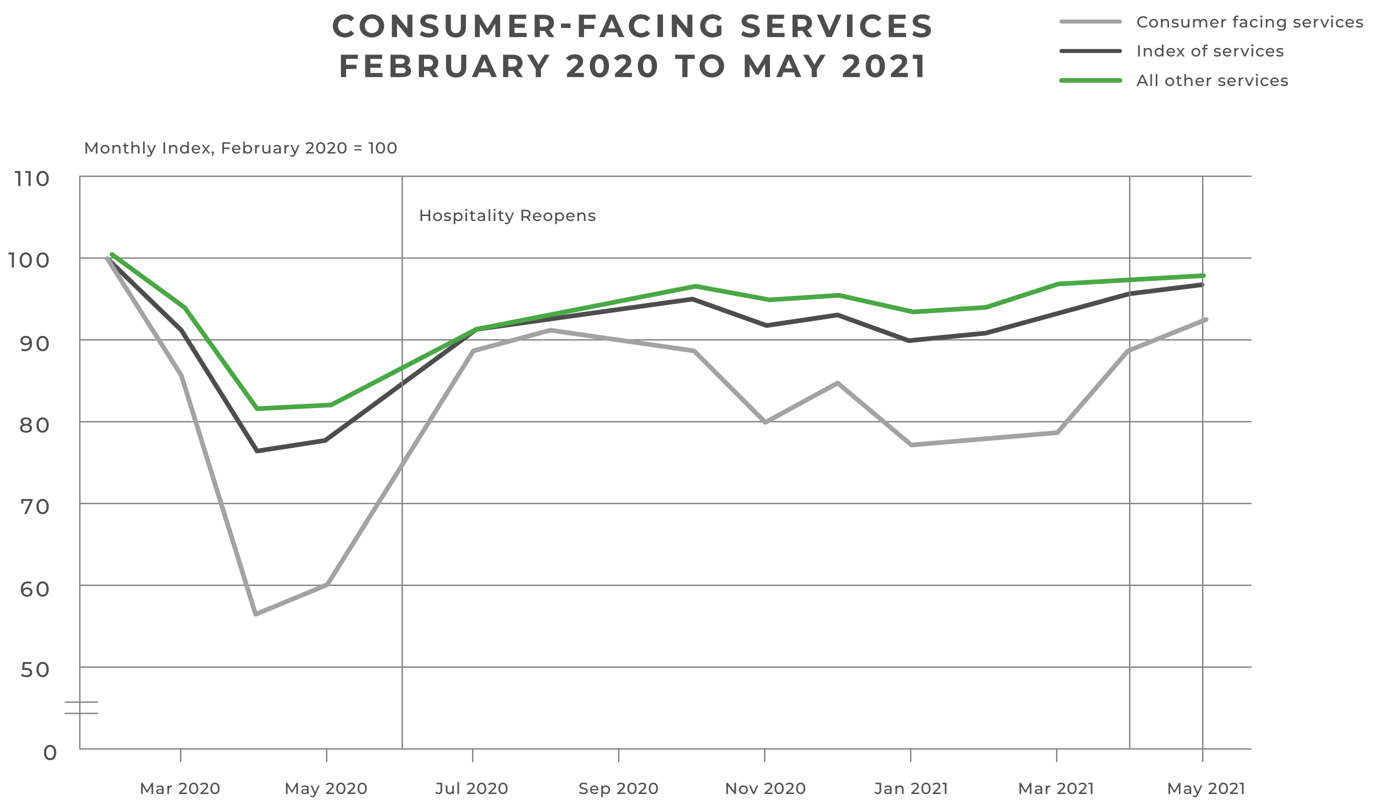
OUR STRATEGIST'S ANALYSIS

When will the US dollar stop being a safe haven asset or be perceived to be such? After weakening consistently last year, recent strength from the US dollar seems to be founded on the rapid roll out of their vaccine program, Joe Biden becoming President and the thought that US interest rates could be increased as "early" as 2023. But just like the central bank's views on inflation being transitory, recent history has shown us that a lot can happen in this interim period. Until we see greater clarity as to how the US economy will perform, especially relative to other countries, then we expect the US dollar to remain range bound.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	0.25%	Jun/21
Inflation rate	5.4%	Jun/21
Unemployment rate	5.9%	Jun/21
GDP growth rate	6.4%	Mar/21

OUR STRATEGIST'S KEY CHARTS TO WATCH

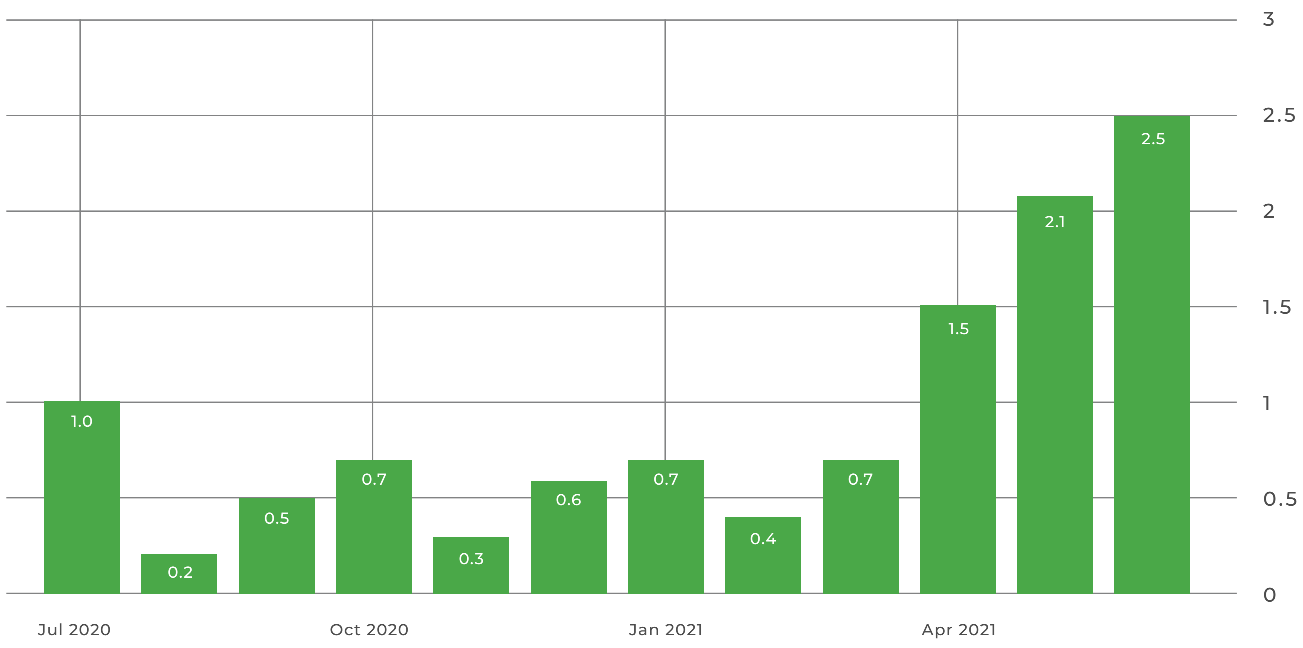
CONSUMER-FACING SERVICES FEBRUARY 2020 TO MAY 2021



SOURCE: OFFICE FOR NATIONAL STATISTICS

Consumer-facing services refer to retail trade, food and beverage serving activities, travel and transport, and entertainment and recreation. In May 2021, they recovered to their highest level since the start of the pandemic. Food and beverage services are the main contributor to this, as pubs, restaurants and cafes could begin to serve indoors from May 17. The service industry is still 9.4% below pre-pandemic levels, but 0.3% above August 2020 when the Eat Out to Help Out scheme gave the sector a boost.

ANNUAL INFLATION RATE IN THE UK



SOURCE: TRADINGECONOMICS.COM / OFFICE FOR NATIONAL STATISTICS

The annual inflation rate in the UK rose to 2.5% in June, exceeding market forecasts of 2.2% and the highest rate since 2018. Transport made the biggest impact towards this rise, with petrol prices much higher than in June 2020. This was partly offset by games, toys and hobbies falling in price this year after prices increased a year ago. The Bank of England predicts that inflation will rise above 3%, although takes the view that this is transitory. This latest inflation reading could intensify the debate surrounding this.

> "You can never plan the future by the past."
> Edmund Burke, Statesman and Philosopher

GLOBAL CURRENCIES

AUSTRALIAN DOLLAR

The pound has recently strengthened against the AUD due to a surge of the Delta variant in Australia. With only 5% of the Australian population vaccinated at the time of writing, no clear plan of action from the government and vaccine shortages, the future looks uncertain. The Reserve Bank of Australia left interest rates at 0.1% at the beginning of July but indicated that rates could rise earlier than 2024. RBA Governor Philip Lowe said, "Experience to date has been that once outbreaks are contained and restrictions are eased, the economy bounces back quickly."

CHINESE YUAN

After a hitting a 4-year high against the US dollar at the beginning of June, the People's Bank of China put measures in place to weaken the currency, due to the negative impact that a strong yuan has on Chinese exports. Following the Fed's June meeting, the yuan weakened further, recording its largest monthly drop against the US dollar at the beginning of July. The People's Bank of China will continue to monitor the CNY closely, although a strong US dollar could keep it from strengthening again in the coming weeks.

CANADIAN DOLLAR

The Canadian dollar has been one of 2021's best performing major currencies so far, buoyed by the expectation that the Bank of Canada will taper monetary policy ahead of the Federal Reserve. However, at the Fed's June meeting, two interest rate hikes were forecast for 2023, earlier than previously expected. This has reduced the Canadian dollar's advantage against the US dollar. Upcoming decisions from the Bank of Canada will have a bearing on the strength of the CAD, as will oil prices, economic data and inflation readings. A recent rise in oil prices has supported the CAD against the USD.

"The future is called 'perhaps', which is the only possible thing to call the future."
Tennessee Williams, Playwright

MAJOR BANK CURRENCY FORECASTS

2021 MAJOR BANK FORECASTS - GBP/USD				
INSTITUTE	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Barclays	1.40	1.40	1.40	1.40
BNP Paribas	1.40	1.39	1.40	1.39
Commerzbank	1.40	1.41	1.42	1.42
Danske Bank	1.40	1.39	1.39	1.39
ING Finance	1.47	1.51	1.52	1.51
JP Morgan Chase	1.40	1.40	1.40	1.40
Morgan Stanley	1.43	1.40	1.41	1.41
Median	1.41	1.41	1.42	1.42
Minimum	1.36	1.34	1.35	1.33
Maximum	1.49	1.51	1.52	1.54

2021 MAJOR BANK FORECASTS - GBP/EUR				
INSTITUTE	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Barclays	1.19	1.19	1.19	1.20
BNP Paribas	1.19	1.19	1.20	1.20
Commerzbank	1.19	1.18	1.16	1.15
Danske Bank	1.19	1.19	1.19	1.20
ING Finance	1.18	1.18	1.19	1.20
JP Morgan Chase	1.16	1.18	1.18	1.19
Morgan Stanley	1.18	1.16	1.18	1.19
Median	1.16	1.18	1.18	1.16
Minimum	1.14	1.14	1.11	1.11
Maximum	1.20	1.22	1.28	1.28

2021 MAJOR BANK FORECASTS - EUR/USD				
INSTITUTE	Q3 2021	Q4 2021	Q1 2022	Q2 2022
Barclays	1.18	1.18	1.17	1.16
BNP Paribas	1.18	1.17	1.16	1.15
Commerzbank	1.18	1.20	1.22	1.24
Danske Bank	1.18	1.17	1.16	1.15
ING Finance	1.25	1.28	1.28	1.25
JP Morgan Chase	1.20	1.19	1.19	1.18
Morgan Stanley	1.22	1.21	1.19	1.18
Median	1.20	1.20	1.20	1.21
Minimum	1.15	1.13	1.12	1.14
Maximum	1.31	1.32	1.38	1.33

*SOURCE: BLOOMBERG
WE TOOK A SELECTION OF FORECASTS TO SHOW THE EXTREMES AND ROUNDED UP TO TWO DECIMAL PLACES. ACCURATE AS OF 8 JULY 2021.

NETWORKING

If you know a company or individual with exposure to foreign currency, then why not introduce them to Smart Currency Business? When the person or company you refer makes their first trade, we will send you an Amazon voucher worth up to £50* – and there's no limit to how many referrals you can make. The best bit is that everyone benefits from the arrangement! Your referral benefits from the excellent service that Smart provides, you benefit from a voucher to spend at www.amazon.co.uk, and we benefit from having another client to serve.

HOW IT WORKS

- Provide us with the contact details of the company or individual you think might benefit from our service
- We will contact them to find out more and see if we can help
- When they make their first trade, we will send you your Amazon voucher

If you know someone who could benefit from speaking to us, contact us on:
020 7898 0500
referral@smartcurrencybusiness.com
www.smartcurrencybusiness.com/referral50

Please note that if you refer a company and they make their first trade we will send you a £50 Amazon voucher. if you refer an individual and they make their first trade we will send you a £25 amazon voucher.

RESOURCES

SMARTHEDGE

After listening to the needs of our clients, we have created an advanced and easy-to-use platform, offering new automated solutions. Working in partnership with a specialist financial software firm, SmartHedge has been developed and tested to address the specific needs and issues faced by UK companies. Keeping track of your foreign exchange exposure can be difficult and time consuming, but SmartHedge makes this easier. Contact us at support@smartcurrencybusiness.com to find out more.

CREDIT INSURANCE

Brexit, as well as the COVID-19 pandemic, brings uncertainty for many companies. Businesses across the globe may have to accept longer credit terms or delay payments, and in worse instances, go into insolvency. Your overseas customers may need to change due to Brexit, bringing a level of uncertainty that your business did not have to deal with previously. Credit Insurance provides protection against a loss incurred due to the insolvency, protracted default or political event, and subsequent non-payment of an invoice.
Get in touch to find out more.

BUSINESS SERVICES

As well as being experts in international money transfers, we provide a range of different business services that can be tailored to suit your business's specific requirements. Through our trusted network of highly reputable partners, we offer methods for accelerating business growth such as R&D Tax Credits, working capital and Credit Insurance. Over the past year, we have helped countless clients and partners secure extra funding for their business and at this uncertain time, these services could give your company that extra boost. To find out more, please do not hesitate to get in touch at biz-services@smartcurrencybusiness.com

R&D TAX CREDITS

The HMRC R&D Tax Credits scheme is designed to incentivise and reward companies carrying out research and development. The criteria to qualify are surprisingly broad, so even if you think that your business isn't eligible, it's definitely worth double checking. To find out more, get in touch at biz-services@smartcurrencybusiness.com

SMART CURRENCY OPTIONS LTD

We have dedicated options traders who take the time to work with your business to understand your risk management requirements and discuss the possible solutions. Foreign exchange options can be significantly more complex than some of the other risk management products we offer, but we are on hand to guide you through the process step-by-step to ensure you understand the potential benefits of using them where appropriate.

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.

We are proud and excited to announce that we are finalists in two categories at the 2021 Business Moneyfacts Group plc Awards! We have been nominated for **Best International Solution Provider** and **Best Business FX Provider**. Thanks to all those who made the time and effort to submit a testimonial for us.

For further information on how Smart Currency Business can help protect your profits and expand your products and services internationally, email us at **info@smartcurrencybusiness.com** or give us a call on **020 7898 0500**.

COPYRIGHT AND DISCLAIMER

Nominated finalists in the following categories at the 2021 Business Moneyfacts Awards:

- ✓ Best International Solution Provider
- ✓ Best Business FX Provider