

monthly Outlook

Making Currency Our Business

July - August 2014



In this month's issue:

- Access to export finance
- Portuguese banking problems rattle Eurozone
- US to complete quantitative easing programme



Dear Reader,

Welcome to our latest edition of Outlook!

Finance is the lifeblood of any business. In this issue, we shine the spotlight on the support available from government body United Kingdom Export Finance – designed to help UK businesses fund their export activities.

As usual, you'll find the latest currency reports and forecasts for three major currencies, sterling, euro and the US dollar. Knowing economic narratives and being able to estimate how currencies might fare can help you to plan your currency purchases in advance, as well as to take measures against the risks of fluctuating currency markets.

We're always happy to discuss all matters related to your international money transfers – simply call us on **020 7898 0500** or email us at **info@smartcurrencybusiness.com**.

Happy reading,



Carl Hasty
Director, Smart Currency Business

Key economic data releases in July 2014

Date	Area	Key event/data release
July 15	UK	Inflation data; Bank of England (BoE) Governor Carney speaks
July 15	US	Retail sales data
July 16	US	Inflation data
July 25	UK	Preliminary growth data
July 30	EUR	German preliminary inflation data

UK - Sterling

Central Bank dances with interest rates

The Bank of England (BoE) did a dance with interest rates in June. BoE Governor Mark Carney announced towards the beginning of the month that interest rates might be raised earlier than forecast; this led to market speculation that the increase might occur before the end of this year. Although this was appended with a caveat that any rate increases would be gradual and lower than the 5% ideal set by the BoE pre-crisis, the news strengthened sterling against other major currencies, most notably to an 18-month high against the euro and a 5-year high against the US dollar.

However, the BoE sought to distance itself from its comments later in the month, suggesting less confidence in the UK economy's level of sustainable growth. Carney also pointed out that there was more spare capacity in the economy than previously realised. Speculation as to when interest rates will be raised continues.

An unwelcome surprise

The UK's growth prospects took a hit towards the beginning of July, with reports that manufacturing output had fallen by 1.3% in May – a stark difference from an increase of 0.4% that had been forecasted by economists. Sterling faltered on this news, amplifying speculation that its strength so far this year may have been overvalued. However, this turning point in the UK's economic growth narrative has been cushioned by positive economic indicators on the whole, suggesting that sterling strength will continue – the question is by how much?

At the time of writing (15th July), mid-market rates were at £1/€1.2601 and £1/\$1.7141



Access to Support from United Kingdom Export Finance (UKEF)

Britain is racing against the clock when it comes to meeting the Government's target of £1 trillion in exports by 2020. Exporters doing business in the UK require all the help and support they need in order to start exporting, or to expand their current export services.

We featured the advisory services provided by government body United Kingdom Trade and Investment (UKTI) in March's issue of Outlook, and listed the practical help offered to exporters by UKTI in May's issue of Outlook. This month, we look at the help and support available from a government body that specialises in export finance.

The Government's Export Credits Guarantee Department – operating as United Kingdom Export Finance (UKEF) – aims to boost the UK economy through supporting export finance. It mainly provides guarantees, insurance and reinsurance against loss.

As we understand it, UKEF's services include the following:

Export insurance policy

This is designed to protect an exporter from the risk of non-payment on an export contract. It can also be used to recover costs from executing a contract based on events which prevent the contract from being executed, or which cause its termination.

Loan guarantees to banks

UKEF does not only finance exporters in the UK, it also provides up to £3 billion in loans to overseas buyers intending to purchase goods and/or services from UK exporters.

These can take the form of the following:

- **Buyer Credit Facility**
This allows UKEF to provide a guarantee on a loan to an overseas buyer wishing to purchase capital goods and/or services worth at least £5 million from an exporter based in the UK.
- **Supplier Credit Financing Facility**
This allows UKEF to provide a guarantee to a bank on behalf of an overseas buyer wishing to purchase capital goods and/or services from an exporter based in the UK. It can also provide guarantees to banks in order to cover payments due on bills of exchange or promissory notes purchased by the bank from an exporter doing business in the UK. These need to have been received as payment for capital goods and/or services supplied to an overseas buyer.
- **Lines of credit**
UKEF can support UK exporters who trade in capital goods with quick access to finance made by UK banks in order to help overseas buyers

purchase the exporters' goods.

Bond Support Scheme

As UKEF is not a bank, it cannot always provide loans to UK exporters. However, it can provide partial guarantees to banks to help UK exporters obtain finance. UKEF can guarantee up to 80% of the bond value.

Export Working Capital Scheme

Exporters with specific contracts may be able to enlist partial guarantees from UKEF to help them access working capital finance. Aimed at exporters who have won contracts larger than they are used to carrying out, this guarantee is usually up to 80% of credit risk.

Export Finance Adviser

Exporters can also request a free consultation with one of UKEF's Export Finance Advisers in order to determine the best-fitting product for them.

Other advice

UKEF also provides a wealth of export finance advice, ranging from cover policies for specific countries, to recommendations of private sector insurance brokers.

Widening avenues of support

The Chinese renminbi is currently the second most-used currency in trade finance (the US dollar being the first). It is also in the top ten of most-used currencies in the world for payments. In June 2014, UKEF announced that it has added the offshore renminbi to the suite of currencies that it supports. This will allow it to support transactions conducted in renminbi by providing medium and long-term guarantees.

Access to Export Finance

Part of practical exporting is identifying the opportunities available for financing export contracts. Businesses seeking export finance should consider contacting UKEF.

For more information or to get started, visit the UKEF website at:

www.gov.uk/government/organisations/uk-export-finance

You can also find the Smart Currency Business Top Ten Tips for Exporters at:

www.smartcurrencybusiness.com/top-tips

To discover how savings on currency costs can improve your bottom line when exporting, contact Smart Currency Business by calling **020 7898 0500**, or by emailing **info@smartcurrencybusiness.com**

Eurozone

Summary

European Central Bank (ECB) takes long-awaited action

Economic indicators from the Eurozone have been mixed at best for the past month, while inflation has remained far below the ECB's 2% target. This negativity is all in spite of the European Central Bank (ECB) landmark move to cut interest rates at the June meeting.

Continuously poor inflation figures – including in Germany, one of the Eurozone's better-performing countries – sent alarm bells ringing towards the beginning of June. This led the ECB to announce that it would take decisive action – long-awaited by some – to help curb inflation levels and lend assistance to the struggling Eurozone economy.

The central bank announced a lower interest rate, from 0.25% to 0.15% – the euro had been sliding since March and the decision was much in line with what the market expected. In a landmark move, it also cut the deposit rate for banks from 0% to -0.1% in order to motivate them to lend to businesses, which should help stimulate growth in the Eurozone economy. This is the first time that a central bank has set a negative interest rate.

Banking crisis lurking over Portugal

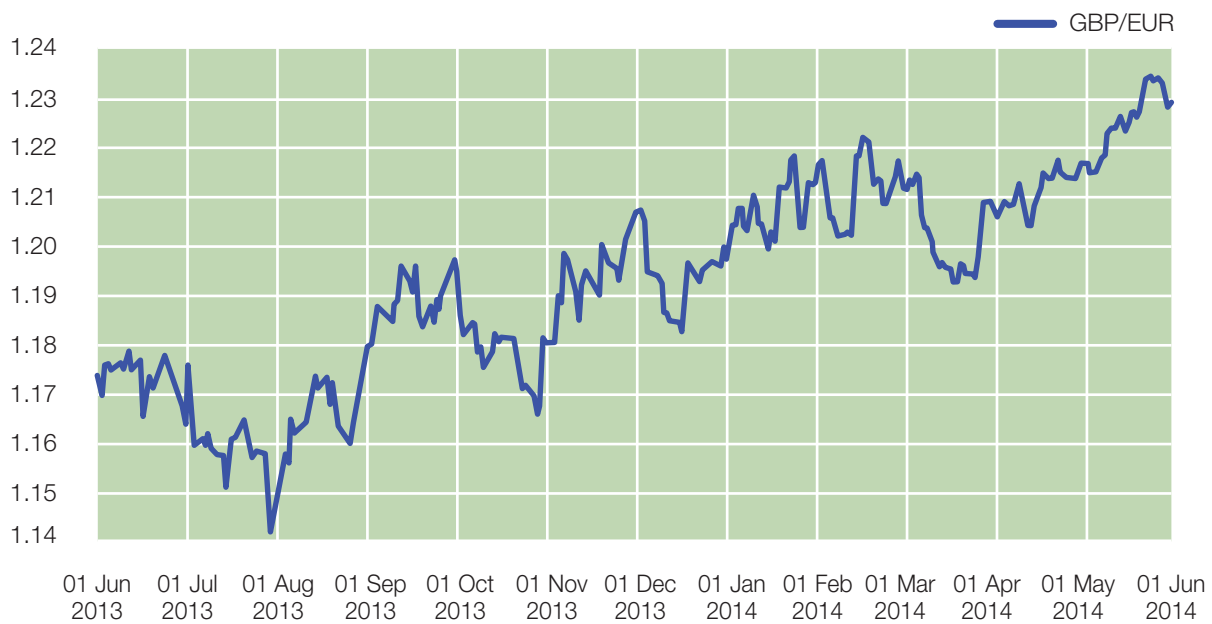
Concerns about accounting irregularities relating to the parent company of one of the biggest banks in Portugal sent stock markets in Europe and the US falling in response. Shares in the Banco Espirito Santo were suspended, leading the Lisbon stock exchange to drop by more than 4%, while its Madrid and Frankfurt counterparts fell by 2.7% and 1.8% respectively. Stocks on Wall Street also opened lower following this news. However, reassurance from the bank that it has adequate funds to face this problem helped to soothe euro markets in the aftermath.

At the time of writing (15th July), mid-market rates were at €1/£0.7933 and €1/\$1.3594

Forecasts

We do not expect the ECB to take further actions to loosen monetary policy until it has had a chance to process the results of its latest moves. Any action – including the potential introduction of a quantitative easing programme – would spell weakness for the euro.

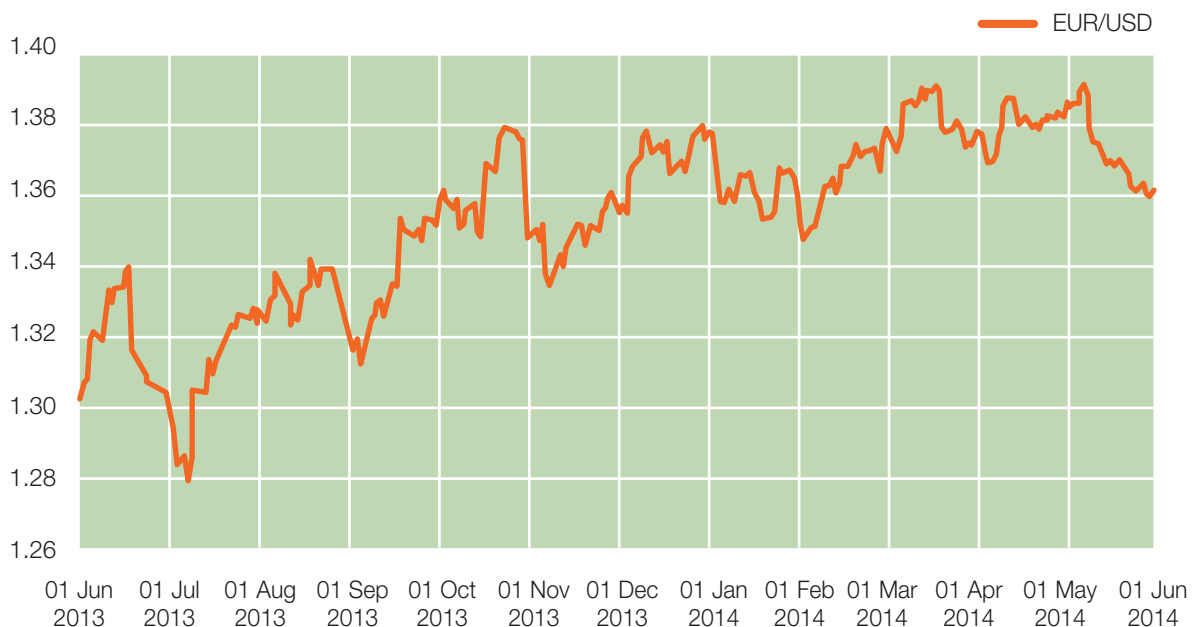
Meanwhile, the Portuguese banking incident has doubtless made euro investors nervous about a possible full-blown banking crisis in the Eurozone – we await further developments.



GBP/EUR expectations for July 2014

	1 month	3 months	6 months	12 months
Barclays	1.2667	1.2977	1.3359	1.3360
HSBC	-	1.2174	1.2612	1.2692
Goldman Sachs	1.2707	1.3077	1.3125	1.3120
Smart Currency	1.2516	1.2568	1.2770	1.2888

Source: Reuters



EUR/USD expectations for July 2014

	1 month	3 months	6 months	12 months
Barclays	1.3500	1.3100	1.2800	1.2500
HSBC	--	1.3800	1.3400	1.3000
Goldman Sachs	1.3300	1.3000	1.2800	1.2500
Smart Currency	1.3586	1.3426	1.3208	1.2896

Source: Reuters



United States

Summary

US Federal Reserve makes Quantitative Easing (QE) declaration

The biggest news out of the US economy in June had to do with the timeline of the US Federal Reserve's current QE programme. After an earlier teaser statement from central bank Chair Janet Yellen in June, suggesting confidence in the US economy, Federal Reserve meeting minutes reported a clear timeline for the completion of QE, with the final \$15bn to be reduced at the central bank's October meeting. However, they failed to outline a clear indication as to when interest rates may start to rise, preventing the US dollar to extend these gains.

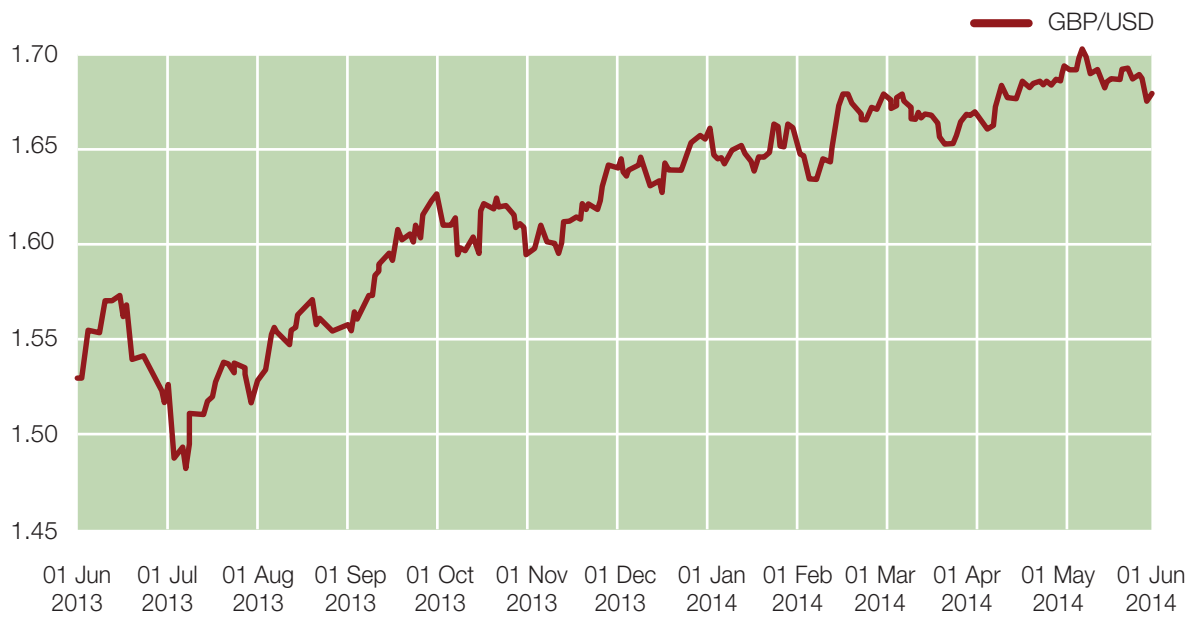
Caution ahead

Despite an improvement in the US labour market – unemployment levels are one of the central bank's indicators for its QE programme – low growth data and disappointing retail sales figures still threaten the strength of the economy.

At the time of writing (15th July), mid-market rates were at \$1/0.5833 and \$1/€0.7355

Forecast

At this stage, we do not expect an imminent interest rate hike in the US and would not expect this to occur before a similar move in the UK. However, given the lack of a clear path forwards at the moment, upcoming economic data could influence the course of action on both sides of the Atlantic.



GBP/USD expectations for July 2014

	1 month	3 months	6 months	12 months
Barclays	1.7100	1.7000	1.7100	1.6700
HSBC	--	1.6800	1.6900	1.6500
Goldman Sachs	1.6900	1.7000	1.6800	1.6400
Smart Currency	1.6992	1.6925	1.6844	1.6653

Source: Reuters

Spotlight On: Smart Currency clients

Staying in touch with Smart Currency clients

Smart Currency traders do not simply facilitate currency exchanges; we also take the time and effort to understand our clients' business requirements and get to know the industries in which they operate. Below are photos from some of our recent fashion client meetings.

Smart Currency Sponsors UKFT Summer Reception

As part of our ongoing relationship with the United Kingdom Fashion & Textile Association (UKFT) – as well as our commitment to providing added value to clients – we are sponsoring the UKFT Summer Reception, a business networking event for fashion businesses, to be held on 24th July. For more information, email info@smartcurrencybusiness.com



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