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Currency Market Report Week Beginning 14th May 2012

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In this week's Report:

- **Pound/Euro rates hit 3.5 year high**
- **GBP/USD rates drop due to global uncertainty**
- **EU political uncertainty still driving exchange rates**
- **Round up of the week's other data that may affect rates**

(For currencies other than GBP, EUR and USD, [contact us for a consultation](#))

Sterling vs. Euro;

Last week again saw the Euro weakening significantly after further uncertainty within the Euro zone, along with some positive data being released from the UK surrounding decisions made by the Bank of England, which combined have led to the mid-market levels for GBP/EUR reaching a high of 1.2501. This is the highest we have seen over the last three and a half years. With some more important data coming out of the euro zone this week it will be hard to predict which way the market will shift.



The main reason for such uncertainty within the Eurozone this week has come as a result of the recent elections in France and Greece. Greece are yet to form a coalition government and there is a lot of uncertainty as the leader of Greece's left-wing Syriza bloc has stated to the two major parties that if they want to form a coalition they have to end their support for the austerity terms. This has increased speculation that Greece may leave the Eurozone which is a big worry for Germany as Spain, Portugal and Ireland may look to follow suit.

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Francois Hollande (the new socialist French leader) is also looking to reduce austerity and to focus on increasing growth which has led to a lot of uncertainty regarding the economic recovery within France and the Eurozone.

Back in the UK, the Bank of England released data for interest rates and quantitative easing (QE). The decision was made to hold interest rates at 0.5% which has now been kept at this level for over four years. There was also the decision for there to be no further QE this month. This has come as a surprise to many experts as the UK recently dropped into a double-dip recession and it was expected that there may be a further injection of QE into the economy. As a result of these announcements the pound strengthened slightly pushing the GBP/EUR rate into the high 1.24's.

This week we have some important data that may affect the rates quite significantly. On Tuesday Germany will release their GDP figures followed then by GDP figures released from the European Monetary Union (EMU) which may have a big effect on the exchange rate. Then on Wednesday we have data from the UK in regards to average earnings and unemployment figures followed up by core consumer price index data released by the EMU which may lead to some large fluctuation in the exchange rate. Then we round off the week with German producer price index release which again could lead to a large swing in the GBP/EUR rate. Full details of the week's data releases can be seen in the Market Data section.

Taking into account the volatility of the Eurozone at the moment and the data that will be released over the next week, it is important that if you are looking to sell Euros this week and you are wary about the data releases, you get in touch with us. Even if you don't need to convert your funds for some time, you can hold the current rate through a forward contract for as much as up to two years, thus protecting against further adverse exchange rate movements. Likewise if you are looking to purchase euros you should get in contact with your account manager at The Foremost Currency Group to discuss the current market movements.

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Sterling vs. US Dollar;

Sterling suffered against the dollar last week as the continued political uncertainty surrounding the Eurozone caused rates to fall away from the eight month highs that we recently witnessed. In this week's dollar report we will take a look at the events that caused the GBP/USD cross to fall to its lowest levels for nearly three weeks.



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On Wednesday rates slipped by nearly a cent from \$1.6160 to \$1.6070 as analysts and investors tried to predict the results of the Bank of England (BoE) interest rate and quantitative easing (QE) decision. It was forecast that interest rates will remain on hold but there mixed feelings over the QE programme, would the BoE add to the £325 billion that had already been pumped into the UK economy?

The markets waited in anticipation on Thursday morning for the data release, as news broke sterling rallied against the dollar and pushed back to \$1.6180. The BoE had kept interest rates on hold and decided not to extend its asset purchasing scheme for the time being, though if the UK continues to move in and out of growth we could see policy maker's vote in favour of another round of monetary stimulus.

Gains for cable may be limited over the coming weeks as concerns over the stability of the euro-zone continue. With so much uncertainty hanging over the Greek government, euro-zone chiefs last week held back the latest instalment of the countries bailout package, lending further support to the pound following the Bank of England decision.

However, the gains were short lived as pound fell against the dollar on Friday after JP Morgan (one of the biggest banks in the U.S), reported a \$2 billion trading loss, The news wiped out Thursdays gains as appetite for riskier currencies lowered and caused a flight to safety as investors headed back to the safe haven U.S dollar.

"The market has reacted negatively to the news JP Morgan has sustained these losses but the market will move on and start focusing on Greece where we are moving towards a second ballot," said Gavin Friend, currency analyst at National Australia Bank.

As we have said before trying to predict which way the market is going to move can be a risky business, trying to squeeze a little bit more from the market could end up costing you thousands of pounds. In the last

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couple of weeks, pound/dollar rates have dropped by 1.5% from 1.6304 to 1.6062 at the time of writing, this is a difference of nearly \$5,000 on a £200,000 trade. The best tool at your disposal is your FCG account manager. If you are thinking of buying or selling dollars in the next 6 months contact the Foremost Currency Group to discuss the different options available to you.

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Weekly Economic Data that may affect exchange rates

Monday – *It's a quiet start to the week in terms of fundamental data, with the only release of note Industrial Production data from the EU.*

Tuesday – *In contrast to Monday, today sees lots of important data. Potentially affecting GBP/EUR rates is the Germany GDP release, Europe's largest economy. This is followed by EU GDP figures later in the morning, and economic sentiment surveys for the EU. In the UK we have Trade Balance figures which may also have an impact on exchange rates. Stateside we see Inflation data, Retail Sales & Housing Index data.*

Wednesday – *We'll start in the UK today with a host of unemployment data including the Claimant count, average earnings and the ILO unemployment rate. We will also see an inflation report from the BoE, so lots that could affect the Pounds value. In the EU we have inflation data and trade balance figures. Across the pond we have Housing data, industrial production, the FOMC minutes and a FED speech.*

Thursday – *The Ascension Day bank holiday sees many EU markets closed today, so data today is weighted towards the states, with Jobless Claims, the Philly Fed survey and a FED speech the main data to watch for as it may affect Sterling/Dollar rates.*

Friday – *The G8 Meeting starts today which could throw up some economic surprises. Scheduled data releases include German and Canadian Inflation data. There are no UK releases today.*