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***“The Euro
is under the influence
but perhaps not the influence you would expect”***

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Many of the factors moving the Sterling–Euro (GBPEUR) exchange rate are plain to see and easy to identify once you master the cause and effect issues. However, there are external influences that are less obvious but equally important and it is these factors that will tend to catch out the unwary.

It is clear that the Euro has recovered slightly on the unexpected news that the European Central Bank has woken up and may even raise interest rates by the spring of 2006. This will end a 2 ½ year stalemate and should provide the Euro with some buying interest from yield hungry international investors. However, their enthusiasm may be tempered by the ongoing wrangle in Germany where, although Angela Merkel is the new Chancellor, her influence is severely diminished by the sparsity of allies in the new ‘grand coalition’ cabinet.

On the UK side of things, Sterling has been unsettled by the growing expectation that the Bank of England (BoE) will leave the UK interest rate alone for now but may lower the base rate before the spring. These concerns are understandable with UK economic growth slowing to 1.5% or less, a slowing housing market and stalling retail activity. However, UK inflation is up at 2.4% and could yet push a little higher. This puts it well above the BoE’s 2.0% target and, whilst energy prices are the major influence, the BoE’s only remit is to manage inflation and so they will have to start thinking about raising interest rates if inflation gets anywhere near their 3.0% embarrassment level. It is at this point that the Governor, Mervyn King, has to write an open letter to Gordon Brown explaining their failure.

As compelling as these arguments are, the real driver of the GBPEUR exchange rate is a combination of external factors. The US Dollar is definitely driving the currency markets aided and abetted by a strengthening US economy which appears to have shrugged off the Hurricanes Katrina and Rita damage but is not out of the hurricane season yet. The hurricane influence is also seen in the oil price which has hit \$70 per barrel and caused UK petrol stations to add the extra digit to pumps and signs in preparation for the £1 litre.

Such a high oil price will hamper growth and increase costs for both manufacturers and distributors. The silver lining to this oil cloud is that the Canadian Dollar (CAD) is at its strongest level in 11 years against the Pound and in 13 ½ years against the US Dollar. However, the CAD is also strong because Canadian interest rates are on the rise; drawing investment funds into the Canadian economy in the quest for higher yields.

This interest rate story is having a major influence elsewhere as well. Some of the world’s strongest currencies are supported because their base interest rate is so attractive to external investors. Australia, New Zealand and South Africa are paying 5.5%, 6.75% and 7.0% respectively. It is not surprising then that Japanese and European investors are keen to send their funds into these economies to gain compared to the 0% and 2.0% rates available in their respective home countries.

International merger and acquisition activity is also making its mark with US conglomerates buying into UK and EU companies causing massive volumes of Sterling and Euro buying and directly influencing traders’ exchange rate pricing.

All of these factors raise or lower your purchasing power when moving funds to or from Portugal and elsewhere. It pays to have timely information when making your currency exchange decisions and a specialist dealer is essential for the provision of the news and data that you need to avoid costly mistakes. It is worth remembering that by the very specialist nature of foreign exchange and the over the counter services on offer from the High Street branches of clearing banks, they are simply not equipped to deliver the right information at the right time.

Alastair Sweetman is an FX Consultant with Halo Financial Ltd, a specialist foreign exchange company providing expert currency exchange services to both companies and private individuals. If you are at the start of buying an overseas property or in the process of buying currency to migrate, it is never too soon or too late to save money on foreign exchange. Halo Financial can be contacted on +44 (0)20 7350 5474 and their website can be viewed at www.halofinancial.com