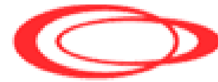

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"Weathering the global currency turmoil"

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As I write this article under a cloudy sky in London, a city nervous of a nagging terrorism threat and you read this in Portugal while Southern Europe contends with a catastrophic drought and bush fires which must be having a similarly perturbing effect, the currency exchange rates may seem an unimportant sideshow by comparison.

However, when you do have to move funds from the UK for living expenses or further expansion of your property portfolio or indeed back to the UK from the sale of an overseas property, saving money compared to the painful bank exchange rates must be a useful topic for discussion.

The Sterling – Euro exchange rate has been relatively stable compared to the whirlwind elsewhere in the foreign exchange market. The US Dollar, which had been the come back kid between April and July, performed a dainty U-turn when the US Federal Reserve Bank became less determined interest rate hiking rhetoric. Their comments suggesting the interest rate hiking cycle may be coming to an end came after a miserly revaluation in the Chinese Yuan, which disappointed US Dollar bulls and allowed the US Dollar to ease lower. The Japanese Yen is becoming the star performer as Japanese economic growth accelerates and the Yuan effect is a major plus for Chinas largest trading partner. Also, the reduced reliance on the US Dollar on the part of Chinese exporters has allowed a period of US Dollar weakness.

The Euro is in the doldrums which is a sentiment that matches the European Central Bank's image. While the Italian economy is finally growing after 9 months of decline, Italy is still pleading for an interest rate cut in Europe but their calls are falling on deaf ears. German growth still disappoints and the unemployment level both in Germany and France is causing great concern. However, many are expecting a period of radical change in Germany after the September elections, although they will be constrained by the Stability and Growth Pact. On balance, there are more reasons for the European Central Bank to lower interest rates than to raise but their intransigence is now legendary and no one is expecting them to act in either direction.

The Bank of England lowered its base rate in August by 0.25% and then hinted heavily that we are not to expect further cuts. This leaves the Pound with a 4.5% base rate compared to the 2.0% in the Eurozone and 3.5% in the US. Game set and match to the Pound you may think but the markets are less convinced. The Bank of England also mocked Gordon Brown's re-jigging of the figures to mask his underachievement compared to forecast and the data from the UK is less than encouraging at the moment.

Nevertheless, the Pound is doing remarkably well and the Euro is equally strong against a beleaguered US Dollar, damaged by yet another cavernous trade deficit – running at $58.8 billion in July - and the selling of US Dollar by Middle East and Far Eastern central banks as they restructure their reserve holdings. There are also rumours that major Middle Eastern players in the US stock and bond markets are investing less. Whether this is for political or economic reasons is unclear. What is certain is that the GBPUSD exchange rate is back in the upward channel that dominated the pair for three years and that the GBPEUR exchange rate is testing up to a six week high.

What is certain is that, even though the US economy is showing 3.4% growth, the US Dollar isn't out of the woods yet. It looks increasingly as though it may carry on declining in a general pattern and that leaves scope for Sterling and Euro strength. Which of these two will weather the storm better is open to extensive debate.

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