HL Currency Outlook

www.HLCurrency.co.uk | 0117 311 3257 | Summer 2015

Sterling shines following surprise election result

It has been a difficult first six months of the year for the global economy. In Europe, the European Central Bank (ECB) continues to support an ailing euro zone recovery through its €1 trillion programme of quantitative easing. Meanwhile, the focus has returned to Greece as it urgently seeks a cash-for-reforms deal with lenders. Failure to agree such a deal could push the country towards leaving the single currency. Beyond Europe, growth in the world's two largest economies (the US and China) has also disappointed.

Against this backdrop, and despite slower growth at home, the pound has thrived (see chart below). Sterling's rise has seen it reach five-year highs against a host of rival currencies including the euro (€1.42), Canadian dollar (CA$1.95), Australian dollar (AU$2.05) and New Zealand dollar (NZ$2.30).

UK general election and positive economic data

The 'most uncertain general election for a generation' did indeed throw up a genuine surprise. Against all the odds and numerous opinion polls, the Conservatives won a small majority. The result raised the prospect of a stable and lasting government and a party committed to improving the public finances.

Both sterling and the UK economy reacted favourably to the result. After disappointing growth of just 0.3% in the first quarter, a post-election bounce saw construction pick up in May and reduced business uncertainty underpinned strong services sector growth.

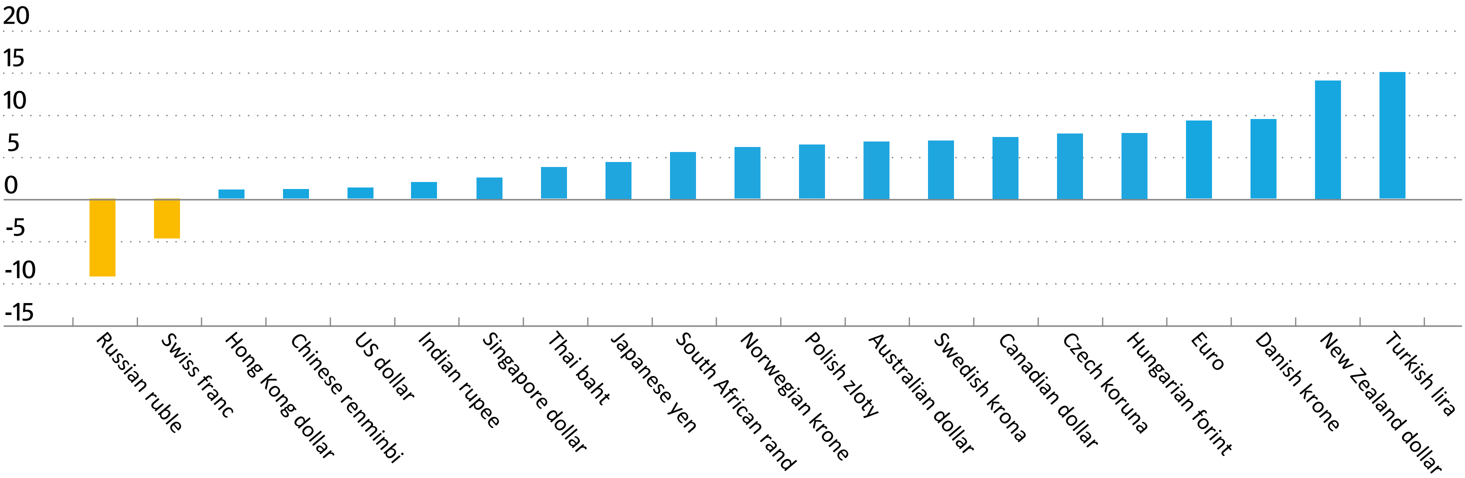
Perhaps the biggest positive for the longer-term outlook for the UK economy is the strength of the labour market. The number of people in work is rising strongly and the jobless rate is at its lowest level since August 2008. Crucially, the real surprise has been the strength of wage growth which has reached a near four-year high. This is the clearest evidence yet of a sustained rise in living standards.

Where next for sterling?

Whilst UK political uncertainties have diminished, further risks are on the horizon for the pound. Notably, David Cameron's promise of a referendum on EU membership by 2017 could damage UK trade relations with its biggest exports market. Additionally, the impressive performance of Nicola Sturgeon and the Scottish National Party (SNP) in the recent general election raises fresh fears about a reignition of the Scottish independence debate. The increased uncertainty surrounding these two political issues could see sterling weaken against other rival currencies in the coming months.

Additionally, any potential interest rate movements are likely to have an impact on sterling's performance in the short-term. At a time when many central banks are taking steps to support their economies by cutting rates, the prospect of higher rates in the UK remains a supporting factor for sterling. A rise could still arrive sooner rather than later, but the Bank of England is likely to need to see a sharper pick-up in inflation and evidence that recent pay growth is filtering through into higher spending.

STERLING'S PERFORMANCE AGAINST SELECTED CURRENCIES (% CHANGE SINCE START OF 2015)



Data as at 25 June 2015. Source: Proquote International

Hargreaves Lansdown

One College Square South,
Anchor Road, Bristol, BS1 5HL
www.HLCurrency.co.uk
0117 311 3257

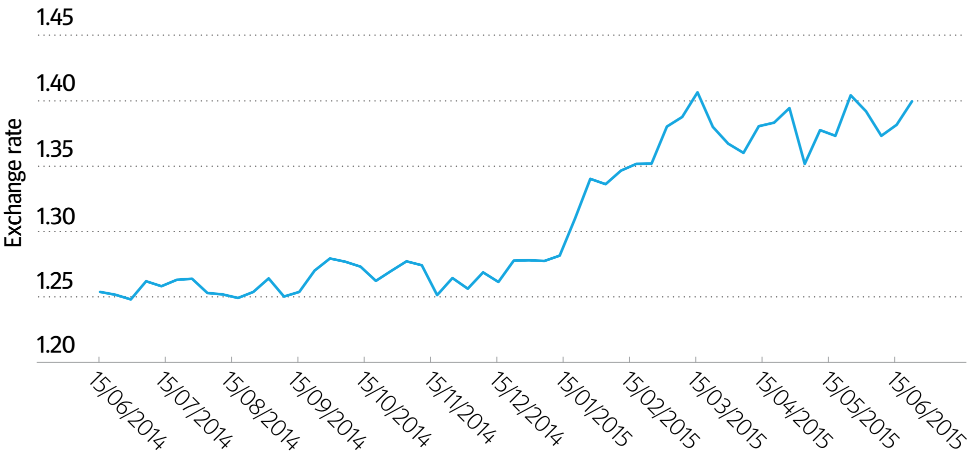
Euro – the final act in this Greek drama?

What's happened? It's been a bumpy ride for sterling/euro in recent months. The exchange rate rose to a seven-year high of €1.42 in March as doubts over Greece's future resurfaced. However, the rate fell back to €1.34 in May following uncertainty over the UK general election.

At the time of writing, sterling has regained some ground climbing to €1.41 against the single currency. This follows the recent referendum in Greece where the public voted to reject the terms of the country's creditors. Rising volatility reflects uncertainty over what comes next for the euro zone and whether we are seeing the final act in this Greek drama.

Although euro zone growth outpaced the UK in the first quarter, this came from a much weaker starting point. The region's jobless rate is above 11% - double the level of the UK. The European Central Bank (ECB) has cut interest rates to just 0.05% and dismissed suggestions the recovery might be strong enough to end its quantitative easing measures before September 2016.

STERLING/EURO



Data as at 24 June 2015. Source: Proquote International

01-Jan-15	Current rate	52-week low	52-week high
1.2871	1.407	1.2395	1.4253

Where next? Although the Greek referendum vote doesn't necessarily mean Greece will exit the euro, it does increase the likelihood of a 'Grexit'. Developments in Greece will inevitably ensure exchange rate volatility remains heightened in the near term.

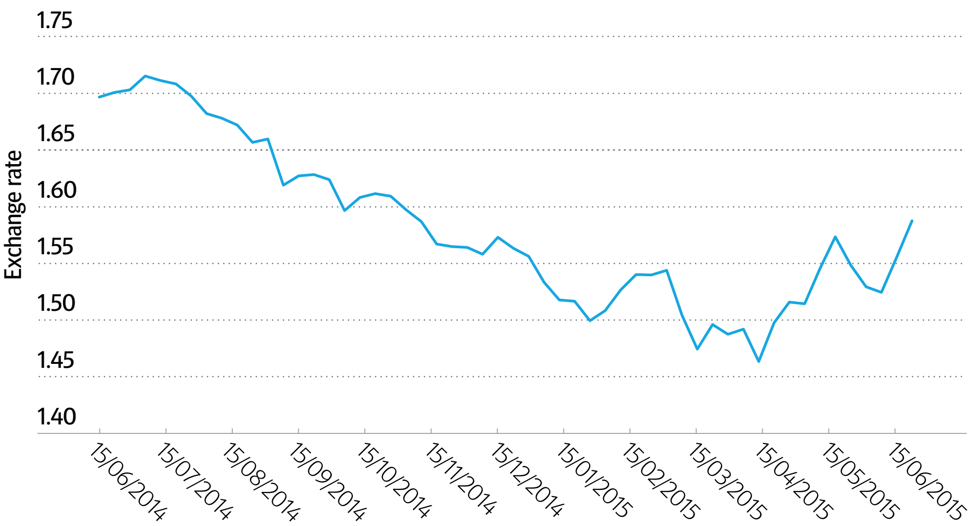
In view of a destabilising impact from Greece and continued monetary stimulus from the ECB, we see scope for the sterling/euro rate to rise in the coming months.

US dollar set to benefit from higher interest rates?

What's happened? Sterling climbed to a seven-month high of $1.59 after the Federal Reserve confirmed US interest rates would be kept near zero in June. However, the pound's recent resurgence perhaps puts the dollar in a bad light. Indeed, the dollar is up by more than 10% against a basket of currencies over the past year.

The extent to which the dollar weakened after the Fed's policy statement in June was surprising given the announcement kept a September interest rate rise firmly on the agenda. 15 out of 17 Fed policymakers expect at least one rise before the end of the year.

STERLING/US DOLLAR



Data as at 24 June 2015. Source: Proquote International

01-Jan-15	Current rate	52-week low	52-week high
1.5574	1.5774	1.4565	1.7191

Where next? Whilst US economic growth stalled in the first quarter of 2015 (mainly on account of an unusually harsh winter) there are positive signs ahead for the world's largest economy. Strong jobs gains and higher wages, combined with low inflation and falling fuel costs, should increasingly support consumer spending and a recovering housing market. Domestic strength could also set the stage for a manufacturing revival, although the strong dollar and a weak recovery in neighbouring Canada remain headwinds to US exports.

Barring any major disappointments, the possibility of a rise in US interest rates as soon as September should underpin support for the dollar. Set against a broadly similar UK economic outlook, we see scope for a modest pullback in the sterling/dollar rate in the months ahead.

Seven benefits of the HL Currency Service

The HL Currency Service is for private individuals as well as small and medium sized businesses that need to buy or sell currency and send money abroad.

As a **FTSE 100 currency specialist**, you will have the peace of mind knowing your money will be transferred safely and securely.

With an HL Currency Service account, you can also benefit from:

1. **Competitive exchange rates:** many people continue to use their bank to send money abroad instead of shopping around for the best rate. The HL Currency Service offers bank-beating exchange rates (up to 3% better) meaning we could save you thousands compared to a bank or building society.

2. **Low transfer fees:** there are no fees for transfers above £10,000 and just £15 below.

3. **Fast currency transfers:** cleared funds can be transferred the same day for euro and US dollar transactions.

4. **Easy payment:** we offer a range of payment options – you can even add money to your account with a debit card.

5. **Experienced and helpful dealing team:** you will have direct access to a team of currency specialists ready to answer your questions. Our aim is to help you decide which type of currency transaction is best for you and ensure sending money abroad is as simple and seamless as possible.

6. **Specialist currency services:** with our range of dealing options, we can tailor transactions to match an individual's currency requirements:

   - Reduce risk by fixing the exchange rate
   - Fix the exchange rate for a flexible time period
   - Monthly currency transfer plans

7. **High quality free research:** we provide up-to-date expert comment on the currency markets helping you make the best decisions when it comes to converting your currency.

Our free Research Centre is available at **www.HLcurrency.co.uk** and includes exchange rates, charts, currency updates and much more.

Any questions?
If you want to know more about the HL Currency Service and how we could save you money, please give our currency specialists a call on
0117 311 3257
(Mon-Fri, 8am-5pm).

NEW AND UPDATED

GUIDE TO SENDING MONEY ABROAD

Request your free copy by visiting
www.hl.co.uk/sendmoneyabroad