HL Currency Outlook

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Brexit nerves pile pressure on the pound

The start of 2016 has seen a weakening of the global economy and triggered countermeasures from central banks. The confirmation of an EU membership referendum on 23 June and a potential British exit, or 'Brexit', has brought increasing uncertainty to the domestic economy. Against this backdrop the pound has endured its worst quarter since 2008, falling over 5% against a basket of global currencies.

Worries of a slowdown amongst emerging market economies, notably China's, elicited fresh responses from some of the world's major central banks. Many responded by delaying rises in, or cutting, interest rates to fend off risks to growth prospects. The European Central Bank (ECB) expanded its stimulus package and cut its main rates to zero in March, while the likes of Sweden and Switzerland moved theirs further into the unknown world of negative rates.

Amid apprehension over the world economy and questions over the UK's EU membership, the Bank of England (BoE) has been unsurprisingly cautious. Rate rises have been kicked into the long grass by the Bank, which is expected to remain on the defensive.

Brexit worries leave sterling vulnerable

Financial markets dislike uncertainty. Although the odds point to staying, a large number of undecided voters and some key political heavyweights joining the 'out' campaign mean the referendum result cannot be known. Current pricing suggests around a one-in-three chance of the UK voting to leave the EU, although expect polls to be watched closely as we near decision time on 23 June.

Sterling is likely to remain weak if polls indicate a move towards Brexit. Concerns partly stem from the UK's heavy dependency on foreign investment to fund a large gap between the nation's exports and imports. This makes the UK reliant on the "kindness of strangers", as BoE Governor Mark Carney recently put it, leaving the pound vulnerable to sharper falls if the inflows of foreign money slow abruptly. This may be exacerbated in the event of an exit, as it is possible renegotiating UK trade relationships would take a good number of years.

Sterling declines on rate expectations

Meanwhile, the lack of any meaningful inflationary pressure suggests the BoE is in no rush to raise interest rates anytime soon. Inflation was steady at just 0.3% in February. In the same month, the BoE's Ian McCafferty abandoned his lone call for higher borrowing costs, although policymakers are still of the view that the next move is more likely to be up than down. Whilst the UK economy is tipped to be among the fastest-growing developed economies this year, any prolonged uncertainty will keep the BoE on the defensive and investors cautious over sterling's prospects.

STERLING'S FIRST-QUARTER PERFORMANCE (% CHANGE)

Indian Rupee (INR)	-2.4	Thai baht (THB)	-5.1	Singapore dollar (SGD)	-6.9	Australian dollar (AUD)	-7.5
UAE dirham (AED)	-2.5	Turkish lira (TRY)	-5.9	Czech koruna (CZK)	-6.9	Polish zloty (PLN)	-8.0
US dollar (USD)	-2.5	South African rand (ZAR)	-6.3	Euro (EUR)	-7.0	Japanese yen (JPY)	-8.8
Hong Kong dollar (HKD)	-2.8	Swiss franc (CHF)	-6.3	Danish krone (DKK)	-7.1	Canadian dollar (CAD)	-8.9
New Zealand dollar (NZD)	-3.6	Swedish krona (SEK)	-6.4	Hungarian forint (HUF)	-7.3	Norwegian krone (NOK)	-9.2

Source: Proquote International, data as at 1 April 2016

HARGREAVES LANSDOWN

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

Sterling/euro: 22-month lows, downtrend to continue?

What's happened?

Sterling/euro has dropped by more than 10% since early December. The ECB's decision in early March to aggressively step up its stimulus measures enabled sterling to briefly recover to over €1.30. However, the euro's losses were short-lived as President Draghi signalled there may be limits to how much more the ECB could be willing to do. A broad-based sterling sell-off has since driven the pound to a 22-month low of €1.23.

Where next?

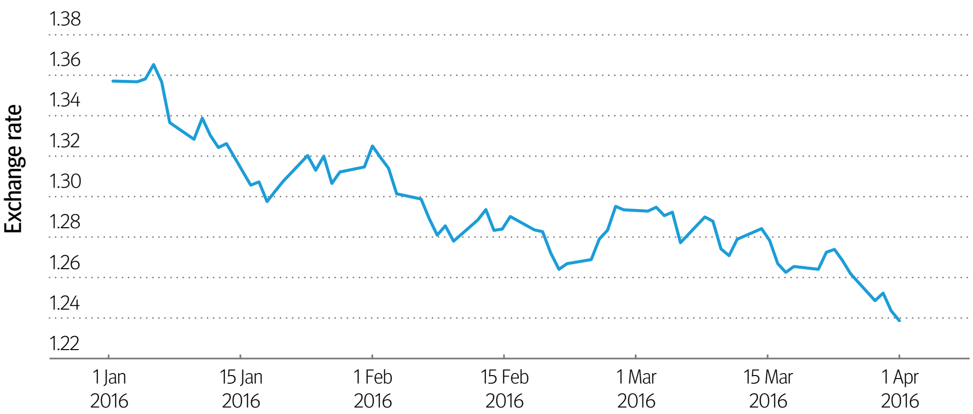
The ECB's latest efforts to boost bank lending should support demand in the economy. The central bank sees euro zone GDP expanding by 1.4% in 2016 and 1.7% in 2017, building upon last year's improved performance. Consumer spending and industrial production have begun the year brightly. Recent business surveys point to activity entering the second quarter on a stronger note.

Figures in March showed inflation was edging higher but still negative, highlighting the difficulty faced by the euro zone in achieving its 2% target. Despite the ECB's best efforts and its commitment to the current stimulus package into 2017, factors, such as lower global growth and oil prices, are out of its control and proving burdensome.

Other challenges for the euro zone are still abundant, including a growing migrant crisis and heightened security concerns following recent terror attacks. Political risks linger in the region's peripheral economies, where voter apathy towards austerity has slowed the pace of structural reforms. Brexit would also have consequences for the continent's future; no country has ever left the EU and it would be at odds with the need for closer European integration.

Inevitably exchange rates will remain volatile for the duration of the EU referendum campaign. The pound is widely expected to fall heavily in the event of a Brexit. Expect the pound to fall further if polls increasingly point to an EU exit.

STERLING/EURO



Source: Proquote International, data as at 7 April 2016

01-Jan-16	Current rate	52-week low	52-week high
1.3571	1.2333	1.2326	1.4415

US dollar: Rate rise on the horizon?

What's happened?

In late February the US dollar rose to its highest level against sterling since March 2009 (US$1.38), boosted by a combination of encouraging US data and Brexit nerves. Slightly more stable financial markets in March coincided with the sterling/dollar rate holding above US$1.40.

Where next?

The US economy's recent resilience has fuelled hopes any significant slowdown can be avoided. Ongoing strong employment gains pushed the US jobless rate below 5% for the first time since 2008 in January. This should in turn support consumer spending at a time when strong goods orders also favour a brighter manufacturing outlook. The Federal Reserve's latest forecasts estimate the US should grow 2.2% this year, around par with the UK.

Unlike in the UK and euro zone, this is translating into higher inflation in the US. US policymakers believe two further interest rates rises will be warranted this year, if the data bears out further improvement and overseas risks fade. Further rises would likely spur the dollar higher, although current market pricing suggests the Fed making only one, if any.

If the US outlook evolves broadly as expected, we might expect the sterling/dollar rate to hinge more on UK developments. A 'relief rally' could push sterling higher into the $1.40s if David Cameron can persuade voters the UK should stay in the EU. A decision to exit could ultimately push sterling below $1.35 for the first time in over 30 years.

STERLING/US DOLLAR

Source: Proquote International, data as at 7 April 2016

01-Jan-16	Current rate	52-week low	52-week high
1.4736	1.4069	1.3834	1.5930

How can we help?

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-6pm).

LOOKING TO FIX THE EXCHANGE RATE?

If you're looking to send money abroad and wish to guard against further falls in sterling's value, you could consider fixing your exchange rate using a Forward contract.

This allows you to fix the exchange rate for up to two years ahead based on today's exchange rate. Although it removes the potential to benefit should rates subsequently improve, it provides protection from adverse movements and can give you the peace of mind knowing your currency costs are fixed.

Please call one of our currency specialists on **0117 311 3257** for further information.

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