

Market Insight - 01.06.2022 - Expect the bumpy ride to continue

May was another decidedly bumpy ride of a trading month.

The Pound dropped another 3% in value during the first half of May against the Euro but is now trading back up at the 1-month 50% trading line.

Against the US Dollar, the Pound finally started a recovery of sorts in the second half of May. Between 1 June 2021 and 13 May 2022, the Pound lost 17% of its value but has since picked up 3% in the last fortnight.

Against the Aussie Dollar, the Pound lost 3.5% of its value in just the first five days of this month but has since steadied to trade back up at the 1-month 50% line.

With inflation rates at a 40 year high in both the UK and the US and a 60-year high in the EU, expect further action by the Fed when they next meet on 15 June; the Bank of England when they next meet on 16 June and even the ECB may now start to raise Eurozone interest rates at their next meeting on 9 June.

The ongoing war in the Ukraine continues to cast a long shadow.

Russia's temporary ban from the global SWIFT payment system is no longer temporary.

Oil is back trading close to \$120 a barrel which will do nothing to reduce the inflationary spike in global economies.

Gold is down 11% since March and as for the crypto sell-off, even Bitcoin has lost 52% of its value in the last 2 months but has been steadier in the last couple of days.

Politically, the Westminster rumour mill continues to feverishly speculate as to whether the backbench 1922 committee has received sufficient votes from Conservative MPs to force a vote of confidence within the parliamentary Conservative party on PM Boris Johnson.

The markets hate political instability above all else so if this does come to pass, further downward pressure on the Pound can be expected.

Worth bearing in mind that if the PM survives the vote (and my feeling is that he will) the Tory party rules forbid another challenge in the following 12 months so we could see some big volatility in the Pound Sterling exchange rates in June.

Trying to 'read between the lines' there are sure signs that the Tory party is preparing for the next general election even if it's called as early as the autumn of 2023.

As always, the media may focus virtually entirely on 'bad news' but there is good news about including :-

1. The latest UK business confidence data rose for the first time in 3-months in a survey out yesterday
2. Direct investment in the UK economy rebounded in 2021 after the lockdown hit 2020.
3. Post-Brexit hit is a hit amongst foreign students with UCAS forecasting a 50% increase in international applications to British universities.
4. The ONS reported that government borrowing fell in May 2022 in comparison to May 2021 as the economy bounced back after the pandemic lockdowns.

5. The only European countries with a lower unemployment rate than the UK are all outside of the EU. The latest data shows the UK unemployment rate is at 3.7% compared to the EU's 6.2% which include Spain with an unemployment rate of 13.7% and Italy with 8.3%. Bear in mind Spain and Italy are the 3rd and 4th largest economies in the EU.
6. There are now more job vacancies than people looking for jobs for the first time on record.
7. Despite the 'cost of living crisis' UK retail sales volume increased in April.

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This week's quote comes from the great Snoopy. In reply to Charlie Brown's statement that 'We only live once' Snoopy replies 'Wrong. We only die once, but we live every day!'