

August is traditionally a decent month for the Pound but not this year.

This August, the Pound suffered its worst month in the currency markets since the Brexit referendum vote in June 2016.

The Pound finished last week trading at its lowest level against the: -

- Euro since mid-June
- US Dollar since March 2020
- Aussie since September 2017 and
- Canadian Dollar since January 2010.

As if the combination of political and economic woes besetting the Pound was not enough, out rushed various research notes from a number of the international banks suggesting even more trouble ahead.

Time will of course tell but I think a less pessimistic forecast is (just) possible.

Later today we have the announcement of who is replacing Boris Johnson as our Prime Minister after the country has been rudderless since Boris's forced resignation on 7 July.

It's a well-known fact that the financial markets hate political instability above all else.

If as widely expected Liz Truss becomes the UK's third female PM after Margaret Thatcher and Theresa May, her positive outlook; talk of economic growth; no new taxes and standing up to other countries may well bolster the Pound, at least in the short term.

Then on the 15th, we have the next Bank of England rate decision.

Will they increase interest rates for the seventh meeting in a row?

Given that UK inflation is at its highest level since 1982, there seems like they have little choice but to do so.

The question then becomes, by how much.

A steady 0.25% or something more aggressive.

Perhaps even a 0.75% rate hike.

The trouble is that analysts are also suggesting both the US Federal Reserve and the ECB (European Central Bank) may also need to act aggressively because both are also suffering decades-high rates of inflation.

The ECB next meets on 8 September and the Federal Reserve on the 21st.

The market's focus may also swing away from the UK towards issues elsewhere including: -

- Russia suspending gas flows to Europe indefinitely
- The German industrial sector is reckoned to only have two months' supply of gas reserves.
- Italy, the EU's fourth biggest economy elects a new PM later this month. Giorgia Meloni is the favourite to become Italy's first female leader. She has previously campaigned for an 'Italexit' of the EU.

- The mid-term elections in the USA and the real possibility that the Republicans can win back control of both houses of Congress and then be able to block any and all legislation promoted by the Democrat President Joe Biden.

Of course, currency market volatility can bring trouble but with careful monitoring can also bring opportunity.

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This week's quote is from Charles Schulz, the creator of the Peanuts cartoon strip "Don't worry about the world coming to an end today as it is already tomorrow in Australia."