

In economics, stagflation is a pernicious situation where an economy suffers, at the same time, from high inflation; slowing economic growth whilst unemployment remains steadily high.

It presents a real dilemma for economic policy decision makers as the actions needed to get inflation under control can exacerbate the growth and employment in the economy and vice versa.

In the UK, we last suffered from a period of economic stagflation in the pre-Thatcher 1970's.

The rate of inflation in the UK is running by official figures at a 40-year high. The Bank of England have raised UK interest rates in each of their last four policy meetings.

This week brings the latest data on UK economic growth, employment, and earnings and then on Thursday we have the next Bank of England policy decision announcement.

When you add in the political pressure on the Pound with PM Boris Johnson just surviving a vote of no-confidence from his own MP's last Monday and there are plenty of reasons why the Pound, having hit its highest level against the Euro on 7 March this year since the Brexit referendum vote in June 2016 has since lost over 3.8% of its value.

The fear of the return of stagflation is not limited to the UK.

In the USA, last Friday saw the Dow Jones Industrial Index drop 800-points as May's inflation data came in even higher than expected and the highest level since 1981.

The Federal Reserve next meet to discuss interest rate policy on Wednesday.

The Dollar is the big winner when the financial markets move towards risk aversion and the Pound ended last week back down at a 4-week low against the mighty Dollar.

In the last 12-months, the Pound has shed over 15% of its value against the Dollar.

Data from the Commodity Futures Trading Commission show bets against the Pound are running at their highest level in almost 3-years.

Even the ECB is getting in on the rate rising act, signalling last week that the end of the money-printing QE program and a possible 0.25% interest rate rise when they next meet in July.

Inflation in the euro zone is at an all-time euro-era high and its biggest economy, Germany last saw inflation rates this high over 60 years ago.

Add to the mix the ongoing Russia - Ukraine war and the Chinese authorities locking Beijing and Shanghai down again due to new Covid outbreaks and its little wonder the OECD (Organisation for Economic Co-operation and Development) have signalled slowing growth for the global economy in the coming years.

Good news?

Everything is relative in the currency markets. The UK is not suffering in isolation so all these conflicting economic, political and sentiment factors are sure to keep the currency and financial markets highly volatile.

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

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This week's quote comes from Aristotle "It is during our darkest moments that we focus to see the light"