

We are half-way through May and the Pound continues under severe pressure.

Last week, the Pound hit its lowest trading level against the EUR since September 2021.

As recently as 7 March, the Pound was trading at its highest level against the Euro since the Brexit referendum vote of June 2016. It has since lost over 4.7% of its value against the single currency.

That is not too bad compared to how the Pound is faring against the Dollar.

Last week, the Pound hit a new two year low and since the turn of the year, has lost over 12.6% of its value against the greenback.

Why?

UK inflation has surged to over a 30-year high forcing the Bank of England to raise interest rates on each of their last four policy meetings dating back to December 2021 at a time when taxes have been increased and the escalating cost of living crisis has made UK living standards fall to a 66-year low. Add to those various national political scandals (choose from party-gate to beer-gate to use the media parlance); the ongoing war in the Ukraine; a fresh bout of UK-EU tension over Brexit and the NI protocol and you can see why the Pound is the worst performing major currency of 2022 to date.

However, in the currency markets everything is relative, so all is not doom and gloom, despite the best efforts of the UK media to slavishly follow the mantra that 'bad news sells newspapers'.

For example, last week's worse than expected UK GDP (economic growth) data for the first 3-months of this year forced the Pound down to fresh lows yet the 0.8% first-quarter of 2022 growth rate is double that of the EU (0.4%); four times better than Germany's 0.2% and a whole lot better than the US economy which shrank in the same period by -0.4%.

Again, there was plenty of media coverage on the pressure on PM Boris Johnson after the local election results on 5 May which saw the Tories lose some headline London borough's like Wandsworth and Westminster but much less coverage showing that the Tories more than held their own in the north (the so called 'blue wall' seats taken off Labour at the last general election in 2019).

For example, the Bank of England has now increased UK interest rates in each of their last four meetings and interest rates now stand at 1%, their highest level since February 2009. However, UK base rates started this millennium at 5.5% and by historical standards, are still very, very low. Even if they do rise to the now often predicted 2.5% by the summer of 2023, that will still be very low compared to interest rates over my lifetime.

There is no doubt some very serious, worrying issues out there but in my opinion, all global in nature.

Take your pick from the possibility of Russian invading Ukraine's neighbours or as the Russian war machine's conventional weapons seemingly fail to make any headway, a desperate Putin uses biological, chemical, or tactical nuclear weapons. With both Sweden and Finland deciding to apply to join NATO as soon as possible, tensions in this part of Europe do not look like they are going to go away anytime soon.

Or China's zero-Covid policy which has shut down Shanghai, a city three times the size of New York and the main gateway to Chinese trade with the world for weeks on end.

The global supply chain was at best creaking before this, and the closure of Shanghai has only worsened the situation.

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This week's quote is from Muhammad Ali "Often it isn't the mountains ahead that wear you out, it's the little pebble in your shoe".