

Hello,

How volatile are these currency markets?

Mid-last week the Pound was trading at a 2-week high against the Euro.

On Friday, it had fallen to trade at a 4-week low against the same currency and a 5-week low against the Dollar.

The catalyst?

Friday morning's data included the worst UK consumer confidence data since records began in 1974.

Not a huge surprise given the cost-of-living crisis but nevertheless it puts the Bank of England in a real quandary.

Should they increase interest rates for the 7th meeting in a row when they next meet on 15 September in order to combat UK inflation which has this month spiralled to its highest level since February 1982 or will that simply make the cost-of-living crisis even worse by increasing borrowing costs.

There are no more meaningful UK economic data releases now until next month so the markets will move even more with the latest headlines and speculation that is normally the case.

Over the pond, the Fed signalled that US interest rates may need to remain at levels that restrict the economy "for some time" in a bid to contain the highest inflation in roughly 40 years according to the minutes from their last meeting of 27 July at which the Fed raised its benchmark interest rate by 0.75% for the second month in a row.

Looking forward, September should be another lively month with the name of the new British Prime Minister announced on the 5th and the Bank of England's next rate setting meeting on the 15th.

We may also be in for further post-Brexit political trouble between the UK and the EU. The UK government is furious with Brussels, believing the latter has broken the post-Brexit trade agreement by excluding the UK from three significant international science projects.

On the Brexit theme, data shows that new arrivals in the UK from the EU have dropped by 90% in the last 12-months.

Elsewhere, China's central bank unexpectedly lowered its key interest rates last week as it sought to provide more support to its economy. The latest economic data showed a weaker-than-expected increase in retail sales and industrial activity in July while house prices reportedly fell by 0.1% month on month.

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 the great Thomas Sowell "The first lesson of economics is scarcity. There is never enough of anything to fully satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics."