

What a start to the year in the currency markets.

The Pound is back up to its pre-pandemic highs against the Euro but continues to sink against the Dollar closing on Friday at its lowest level since Christmas eve.

Anyone hoping / expecting the markets to quieten down anytime soon may be in for a disappointment as this week brings in a new month with both the Bank of England (BoE) and the European Central Bank (ECB) announcing their latest interest rate and monetary policy decisions on Thursday, 3 February.

With UK inflation registering a 30-year high in January, the markets are pricing in a 90% chance of a second consecutive interest rate rise by the BoE to 0.5%. By contrast, the ECB are expected by and large to continue to 'sit on their hands' and continue with their 'wait and see' approach.

This could see the Pound continue to appreciate in value against the single currency.

The US Federal Reserve next meet on 16 February and like the BoE are expected to tighten US monetary policy further including the first post-pandemic US interest rate rise in the face of the latest economic data which showed US inflation rate at its highest level in 40-years with the Fed's own inflation gauge rising at its fastest rate since 1983. That is so far back even I had not started working full time!

The stock markets are certainly pricing in the idea that both the BoE and Fed will raise rates. The European bourses have registered 4-consecutive weeks of weekly losses in 2022 to date whilst the NYSE saw some crazy volatility last week. On Thursday, the main index closed at its lowest level since the 1st December 2021. On Friday, it enjoyed its best day of the year so far.

Oil prices have risen in the commodity markets in each of the last 6-weeks whilst gold suffered its worst week since November, further boosting the US Dollar.

Global politics is highly unlikely to calm the waters with the Russia / Ukraine situation continuing to escalate whilst Boris Johnson continues embroiled in the so-called 'party-gate' affair. So despite 'sorting' Brexit out and the relative success of the Covid vaccine campaign in the UK, Boris could well go, possibly as soon as next week after the publication of Sue Gray's report and given the level of discontent, at least in the Westminster bubble even if he does survive he may only do so until the aftermath of the 6 May local election campaigns if the Tories do badly at the polls.

Neither current economics nor politics is likely to dent demand for the safe-haven qualities of the Dollar so it may well continue to appreciate in value against its main currency rivals including the Pound and the Euro but a change in political leadership in the UK could easily wipe out the Pound's recent gains against the Euro and lead to further losses against the mighty Dollar.

This week's quote comes from Oscar Wilde "Be yourself because everyone else is taken!"

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