In this month's issue:

• Sterling's poor start to 2013 gets worse
• Will they, won't they? QE prospects firming up
• Eurozone crisis enters a new phase
Dear Reader,

Welcome to the March 2013 edition of *Outlook*.

As we head into March, there is plenty happening that will keep the markets in a state of volatility. Following last month’s downgrade for UK credit, which capped off two months of weakness for Sterling, the Chancellor will deliver his third Budget which, if it contains any surprises, will almost certainly be on the downside, and contain nothing to arrest Sterling’s decline.

Indeed, the Bank of England will be pleased with weakness of the currency in aiding UK exporters and offsetting the effects of stubbornly high inflation on the domestic economy. The next board meeting early in the month will attract special interest as rumours abound of another round of quantitative easing.

Outside of the UK, the Euro may demonstrate an even weaker performance over the coming months given the inconclusive election result in Italy and the ensuing market panic. The instability caused by this hung election result can only act as a drag on the Euro, which could last for many months. Given the result, markets will also now likely be more sensitive to the build-up and result of September’s German general election.

Closer to home, this month’s special feature looks at a UK-based manufacturer of display equipment, and how the company’s change of mindset on financial matters has enabled it to achieve greater financial prosperity.

Happy reading!

Carl Hasty  
Director, Smart Currency Business

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**Key economic data releases in March 2013**

<table>
<thead>
<tr>
<th>Date</th>
<th>Country</th>
<th>Key event/data release</th>
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<tbody>
<tr>
<td>March 7</td>
<td>UK/ Europe</td>
<td>Bank of England/ ECB Announcements</td>
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<td>March 7</td>
<td>USA</td>
<td>International Trade and Jobless Claims</td>
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<td>March 13</td>
<td>Europe/ USA</td>
<td>Industrial Production/ Retail Sales</td>
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<td>March 14</td>
<td>UK/ USA</td>
<td>Producer Price Index (PPI)/ Jobless Claims &amp; PPI</td>
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<td>FOMC Announcement/ Budget Day</td>
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<td>March 28</td>
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**Sterling**

So Sterling assets just got a little bit risky… A bad start to the year got worse in February for Sterling, culminating in the loss of Moody’s AAA credit rating in the UK on 22nd February – not a great platform for Osborne to build on at his Budget on 20th March. This demotion wasn’t wholly unexpected, given the UK’s lack of economic growth, continuing debt worries and the threat of slipping back into recession.

Even with the credit downgrade priced into the market to some degree, Sterling fell to a 16-month low against the euro, with the interbank rate bombing at one point to £1/€1.134 on 24th February, and a two-and-a-half-year low against the dollar, with the rate hitting £1/€1.507. By 25th February though, Sterling saw a bounce-back, when the results of the Italian general election caused uncertainty in the Eurozone, undermining some of the euro’s gains from the previous day and weeks.

So where next? The prospect of Sterling depreciating further remains strong all the while the Bank of England favours a weaker currency – to support UK exports - and flirts with further quantitative easing, and the Government remains committed to continuing with its austerity plans. The next Bank of England Monetary Policy meeting on 7th March will be watched closely: the Committee will be well aware that a weaker currency fuels inflation, thanks to imports being more expensive, so attempts to strengthen Sterling will be necessary at some point in the future, or they risk stifling any recovery.
Switching to Smart has been a boost for leading maker of show stands

Chances are that if you have been to a large exhibition, conference or trade show recently, you have seen the handiwork of Northamptonshire-based Nimlok Ltd. The specialist exhibition stands and display systems manufacturer has been operating since 1970, and is renowned worldwide in the events and exhibitions industry for its display and branding solutions.

With a network spanning 56 countries, Nimlok has needed to make international money transfers for a number of years. Fortunately, the company has used the services of international payment specialist Smart Currency Business for more than two years, having previously used its bank to make overseas payments. The benefits of the transition have been swift and wide-reaching.

Finance Director, Jeremy Roberts, explains that it was an initial decision to try something different that has yielded great rewards for Nimlok: “Smart Currency contacted us and asked about how we processed our foreign payments. We weren’t interested in using a third party for a number of years and instead used our normal bank, however Smart made the process sound much more straightforward, so we changed our mindset to pursue things with them and have used them ever since.”

Nimlok predominantly trades in US dollars in order to pay the invoices of its US-based sister company. Since late 2011 the firm, which employs more than 450 people, traded close to US$400,000 through Smart, a rise on the amount traded the previous year.

When asked what enticed Nimlok to stay with Smart since first trialling its service, Jeremy doesn’t hesitate in his reply: “It is Smart’s approach more than anything. They have made the process of making international payments much simpler and faster. We don’t have the delays we used to face, and we have made substantial cost savings on both the exchange rate we receive and the bank charges that we no longer have to pay. We also benefited greatly from a forward contract we placed last year, which is something we are looking at taking up again.”

Jeremy also points out the quality, efficient service Nimlok has received since signing up with Smart Currency, and the wider benefits this has achieved.

“Being with Smart has also saved us plenty of downtime. Instead of us having to put through foreign payments with complex procedures, and pay beneficiary charges for the privilege, it is now just a process of a phone call to confirm the rate and an email to approve the transaction.”

He adds: “I would definitely recommend using Smart Currency to make international payments. Carl Hasty - our personal trader - is very personable, compared to the in-your-face sales tactics of many other business-to-business service providers, and it is just great to do business with Smart!”

If, like Nimlok, you would like Smart Currency to save you money and assist with all your overseas payments needs, call us today on 020 7898 0500.

GDP results announced on 27th March will indicate whether the UK has returned to recession, so Sterling’s strength could swing either way on the back of this. The UK economy grew in the third quarter of 2012, boosted by the impact of the Olympics, but shrunk again by 0.3 per cent in the last three months of the year. Analysts expect the UK economy to recover later in the year, growing faster than the Eurozone area – thanks in part to Sterling’s current weakness aiding exports. If they’re right, Sterling should begin to regain some of the value lost since the start of 2013. Meanwhile, Sterling’s safe haven status in Europe has diminished and until a healthier economy emerges, expect the currency to struggle against both the euro and dollar.

At the time of writing (28 February, 2013), mid market rates were £1/€1.158 and £1/$1.517.
Eurozone

Summary
Knee-jerk reaction to the results of the Italian election on 25th February knocked value off the euro after another bullish month for the single currency, particularly against Sterling. That said, the fragility of the Eurozone had been highlighted the previous week when European banks indicated they will repay just €61 billion of cheap loans they borrowed from the European Central Bank (ECB) a year ago, a lower figure than market expectations. The Eurozone faces a deepening recession and in many countries, a need for continued austerity will dampen economic activity throughout 2013. A further cut of the benchmark interest rate to a record low could be on the agenda at the ECB Meeting on 7th March, when the Italian crisis will be looked at in detail. At the time of writing (28 February, 2013), mid market rates were €1/£0.863 and €1/$1.309.

Why the Italian election matters
The Italian election has resulted in political deadlock, thanks to a large protest vote leaving no party or coalition with enough seats to form a majority in the upper house – a re-election is likely. Crucially though, none of the winning parties have expressed a desire to follow through with the austerity measures that Mario Monti’s government had been pushing through. As a result, Italy’s borrowing costs have increased to dangerous levels again, as the Eurozone’s third largest economy – and second most indebted after Greece - continues to fight a 18-month recession and high unemployment.

The chances of any new Italian government accepting the tough conditions required by the ECB before they would be prepared to buy Italian sovereign debt to reduce borrowing costs are slim, making for an uncertain few months. There is concern that the political and financial instability in Italy could spread to Spain, where borrowing costs also spiked after the election and unemployment is at record highs, reigniting the Eurozone crisis. The euro’s recent strength could be shorter lived than first thought – Sterling became a safe haven in Europe overnight on 25th February, but who knows what next month could bring.

Easing of austerity?
Earlier in February, the European Commission revised forecasts for recovery in the Eurozone, saying GDP would contract by 0.3 per cent rather than the previous figure of 0.1 per cent. It blamed record unemployment – expected to peak at 12 per cent in 2013 – and the failure of banks to stimulate economies through lending. There are suggestions that an easing of austerity measures for countries receiving aid could be on the cards – could the Italian election prompt this?

Eurozone forecasts
The euro started the year on a high gaining ground across the board as increasing business confidence buoyed risk appetite. The euro began to stall as data highlighted how slow economic growth was within the Eurozone and it started to lose value against most currencies apart from sterling. Then even sterling gained/held ground as the results of the Italian election unfolded. So there is a high level of uncertainty as to where to next for the euro. Given current sentiment it seems reasonable to say that the euro is weak when compared to the US dollar but stronger than Sterling. Therefore over the next three months it seems sensible to expect for sterling to weaken against the euro but longer term, as the UK economy grows, sterling should regain lost ground but any upside for sterling will be limited.
GBP/EUR expectations for 2013

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Source: FX Week

EUR/USD expectations for 2013

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Source: FX Week
United States

Summary
The dollar begins March at a seven-week high against the euro and two-and-a-half-year low against Sterling, thanks largely to weaknesses on the part of these currencies - Moody’s downgrading of the UK economy and concerns about the effects of the Italian elections. Meanwhile, other positive US data include home sales jumping to a four-and-a-half-year high and the Consumer Confidence Index reaching 69.5 in February, exceeding the 60.5 forecast as well as January’s figure of 58.4. At the time of writing (28 February 2013), mid market rates were $1/£0.659 and $1/€0.764.

Could ‘sequestration’ affect the dollar?
Sequestration, which describes the US’s $1.2 trillion in automatic spending cuts spread over the next 10 years, with roughly $85 billion planned for this year, is due to kick in on 1st March. At the time of writing, Congress was showing no sign of re-negotiating the extent of the cuts – a dangerous situation, as Obama warned at the end of February. If the cuts do go ahead – the effects of which would lead to job losses, a strain on the US economy and general discontent - some analysts believe this will only reinforce the dollar’s safe haven status, strengthening the currency further.

QE or not QE
Federal Reserve Chief Ben Bernanke’s assurance that the FOMC would keep its $85 billion-per-month bond-buying programme in place for now – and they would give plenty of notice before withdrawing it – will be a further boost in confidence for the greenback in March, cementing its safe haven status. The positive effects of QE3 still far outweigh the negatives, confirmed Bernanke. The next FOMC Announcement on 20th March will be watched closely for further signals that years of ultra-low interest rates, in addition to the bond-buying programme, could be close to running its course.
**United States forecasts**

Of the three currencies the US dollar has been in the ascendancy on increased risk aversion. At the start of the year there was great positivity as the Eurozone enjoyed increased business confidence and the US avoided their fiscal cliff. However this has all changed and risk aversion is very much to the fore and the safe haven status of the US dollar has seen it strengthen. This is likely to continue for the next few months as we know there are various problems to be overcome; the US has its budget cuts, the Eurozone has its hung Italian parliament and the UK has its lack of growth. As the year progresses we should see an improvement in economic growth which will increase risk appetite and weaken the US dollar.

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**GBP/USD expectations for 2013**

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Source: FX Week
Client Support - Contact Details

**Corporate Sales:**
- Alex Bennett +44 (0) 207 898 0502  Alex@smartcurrencybusiness.com
- Si Cong Ma +44 (0) 207 898 0500  Si@smartcurrencybusiness.com
- Thomas Rudd +44 (0) 207 898 0500  Thomas@smartcurrencybusiness.com
- Oliver Pearce +44 (0) 207 898 0500  Oliver.Pearce@smartcurrencybusiness.com

**Corporate Trading:**
- Carl Hasty +44 (0) 207 898 0501  Carl@smartcurrencybusiness.com
- Siobhain Barry +44 (0) 207 898 0500  Siobhain@smartcurrencybusiness.com
- Duncan Scott +44 (0) 207 898 0500  Duncan@smartcurrencybusiness.com

**Partnerships:**
- Georgina Hawkes +44 (0) 207 898 0500  Georgina@smartcurrencybusiness.com

**Address:**
Smart Currency Exchange Ltd  
One Lyric Square  
London  
W6 0NB  
United Kingdom  
Tel: +44 (0) 207 898 0500  
Fax: +44 (0) 207 898 0557

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