In this month’s issue:

• GDP growth gives £ a momentary hike over euro
• Eurozone gets Single Banking Supervisor
• How safe is the $ from America’s fiscal cliff?
Dear Reader,

Welcome to this month’s edition of Outlook, Smart Currency’s essential monthly update on global markets and an invaluable resource for UK SMEs who conduct business in more than one currency.

Undeniably, the biggest news to hit the headlines this month is that the UK is now officially out of recession. Although this spells good things for sterling, analysts have been quick to attribute this to the London Olympics and have stressed that no-one should get prematurely excited about the currency’s growth. Things haven’t been looking quite so bright for the euro – we discuss October’s EU Summit and debate the agreement to create a single banking supervisor.

We also take the time to discuss how the strength of the dollar is likely to fluctuate in the coming months as the world awaits the outcome of the US Presidential election and consider what is likely to happen as the country approaches its looming fiscal cliff. Needless to say, the coming months are going to be an interesting time for the United States.

This month’s Outlook also features a case study with Howard Walwyn, owner of Howard Walwyn Fine Antique Clocks. He reflects on how the services offered by the Smart Currency Business team helped him to make the best of his international currency transfers.

We hope that you enjoy this month’s offering and remember if you should ever have any questions or would like to receive a no-obligation quote, call my team today on 020 7898 0500.

Carl Hasty
Director, Smart Currency Business

**Key economic data releases in November 2012**

<table>
<thead>
<tr>
<th>Date</th>
<th>Country</th>
<th>Key event/data release</th>
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<tr>
<td>November 8</td>
<td>Europe</td>
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<td>November 8</td>
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<td>November 8</td>
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<td>Jobless Claims</td>
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<td>November 14</td>
<td>UK</td>
<td>Labour Market Report</td>
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<td>November 16</td>
<td>USA</td>
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<td>November 27</td>
<td>UK</td>
<td>GDP figures</td>
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**Sterling**

The UK is officially out of recession – it’s a nice headline, but has it got legs? The economy recorded its strongest GDP growth in five years in the three months to September, namely a rise of 1%, which is 0.4% more than the expected 0.6%. Unsurprisingly, sterling gained against both the euro and dollar on the back of the news, released on October 25, which injected confidence back into the City and helped to end sterling’s recent downturn against the single currency. Better-than-expected consumer credit, mortgage data and CBI retail sales data have added to sterling’s strength. However, chances are that this is a momentary shot in the arm and not a long-lasting trend.

Analysts are quick to point out that this bounce-back is on account of one-off events, notably the London Olympics, and such bullish growth is unlikely to continue into the next quarter. Meanwhile, exporters
Time is of the essence for currency transfers

The business of buying and selling antiques is not the same as your everyday retail operation. With such prized pieces of history on sale, buyers and sellers don’t tend to make hasty decisions. Although the need for international payments can be erratic, when it does arise, it is important that payments are made swiftly and that an agreeable exchange rate is achieved every time.

After running Kensington’s Rafferty and Walwyn Ltd for quite some years, Howard Walwyn decided to branch out on his own and his new company, Howard Walwyn- Fine Antique Clocks now handles exquisite timepieces from a range of makers spanning the globe. Dealing with suppliers and highly experienced craftsmen in a number of countries created a need to enlist the services of a reputable company to deal with all of their international currency transactions. On the recommendation of a friend in the antiques industry, Howard Walwyn was led to Smart Currency Business...

“After receiving the recommendation, I took the time to investigate Smart and a number of their competitors. The service that Smart provided was by far and away the best of the bunch, the rates offered put those offered by the banks to shame and no expensive fees were charged. Above all, Smart were reliable and trustworthy - just what we were looking for”.

Howard embellished on the levels of service received from his personal trader, Siobhain Barry: “I was instantly put at ease by Siobhain, so much so that I decided to use Smart Currency Business for not only my business account but my personal transfers too”.

He continued: “The team are always on hand as soon as the need to make an international transfer arises. I am kept in the loop at all times so I always know where my money is and I enjoy feeling confident that I am getting the best rates possible at time of trade”.

In addition, Howard was quick to express his joy after hearing that Smart Currency Business had been appointed partner and recommended service provider to the British Antiques Dealers’ Association (BADA). “It seems only right that for an organisation like BADA, who place such great emphasis on establishing and maintaining confidence between its members and the public, that they have forged a partnership with a trustworthy company who dedicate their time to getting to know and meeting the needs of their valued clients”.

will feel the effects of strengthening sterling, not helped by the UK’s economy being exposed to the Eurozone, where uncertainty and economic turmoil continue.

The likelihood of the Bank of England (BoE) extending its £375 billion quantitative easing (QE) programme will have lessened with the positive GDP results – and with it the resultant diluting, i.e. weakening, of sterling. The current round of QE, completed at the end of October, is expected to be the last for the time being, and the additional £50bn QE that speculators had forecast for November is likely to be put on hold. But we’re in unprecedented times and the BoE’s Monetary Policy Committee is well aware that the 1% GDP growth overstates the UK economy’s true strength. The next round of QE is still on the cards, just not likely to be announced at the BoE’s MPC Meeting on November 8. Minutes from the meeting will follow on November 21.

At the time of writing (October 31), mid market rates were £1/€1.239 and £1/$1.612.
Eurozone

Summary
Stronger than anticipated UK GDP growth combined with weak economic data from Europe has weighed on the euro in the last week. The purchasing manager’s index for the Eurozone’s manufacturing and services sector ominously showed a much lower than forecast output, even after the forecast had been cut several times in 2012. Business sentiment in Germany falling in October for the sixth consecutive month hasn’t helped. The next ECB meeting is November 8, while figures for industrial production in the Eurozone are released on November 14, so expect some movement in the euro around these dates. At the time of writing (October 31), mid market rates were €1/£0.807 and €1/$1.301.

Single Banking Supervisor
The EU Summit, held on October 18-19 in Brussels, has helped bring some stability back to the single currency - much needed after its unsteady summer months, which saw it slip to a four-year low in July of €1/£0.78. EU leaders agreed on the creation of a single banking supervisor, which will have the power to intervene in any of the Eurozone’s 6,000 banks. A legislative framework for this is to be in place by January 1 2013. Once it is active, the Eurozone’s new European Stability Mechanism (ESM) rescue fund will be able to recapitalise struggling banks directly without adding to a country’s sovereign debt.

Last week, European Central Bank’s (ECB) President Mario Draghi dumbed down fears in Germany that the ECB’s initiative to buy government bonds, known as Outright Monetary Transactions (OMT), would lead to inflation in the countries concerned.

Spain and Greece
The regional elections in Spain in October/November have extra gravitas for the stability of the euro given the tightrope that Prime Minister Rajoy is walking. Much-needed support for his People’s Party would indicate Spaniards are prepared to back his government’s austerity measures needed for economic recovery, but success for Rajoy at the polls might delay further his request for a bailout. Rajoy’s “wait and see” approach does nothing for confidence in the single currency. Meanwhile, Greece appears to be on the verge of agreeing a new austerity package with its troika creditors and to have secured more time to patch up the nation’s finances.

Emerald Isle could shine again
Across the Irish Sea, Ireland’s economy has come out relatively rosy from its review by the troika of the ECB, European Commission and IMF. The troika noted that policy implementation there remains steadfast despite the challenging external environment, helping the country to start to regain market access.

Eurozone forecasts
The euro had gained significant ground during October and it looked as if further gains were imminent. Then we had poor Eurozone economic data, good US and UK GDP data and further prevarication from the Spanish Government in asking the ECB for help. This led to the euro finishing the month on the back foot. Overall the market seems to think that the downside risks for the euro are greater than the upside potential and as such see the euro weakening over the next twelve months.
GBP/EUR expectations for 2012

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Source: FX Week

EUR/USD expectations for 2012

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www.smartcurrencybusiness.com/applyonline.aspx
United States

Summary

The dollar is holding steady against sterling and the euro after a non-eventful Federal Open Market Committee (FOMC) Meeting last week. The Federal Reserve announced no changes to its bond-purchase programme, which will continue until the job market improves further, and left its interest rate at 0.25%.

Of course, December’s FOMC Meeting will be a different story, as the USA will have voted for their next president and ideally a plan for avoiding the looming fiscal cliff. December is also when Operation Twist - the Federal Reserve’s Treasury Buying Programme, aimed at bringing down long-term interest rates - comes to an end. The consensus is that treasuries purchasing will continue to avoid the US economy losing momentum. The next FOMC Meeting takes place on December 11-12, expect movement in the dollar around these days. At the time of writing (October 31), mid market rates were $1/£0.62 and $1/€0.769.

Cliff views from the White House…

More than $607 billion in tax increases and huge spending cuts are set to kick in on January 2 2013 when Bush-era tax cuts expire – a threshold dubbed the USA’s “fiscal cliff”. Falling over it could lead the country straight back into recession. Nowhere has a better view of the “cliff” than the White House… so whoever wins the presidency on November 8 will be expected to avoid or re-negotiate a way around the cliff. Romney or Obama, dollar strength will be reflected in how they tackle things in the two months leading up to January 2.

Bright 2013?

On the USA’s current course, economic growth was increased to 1.9% for the third quarter, up from 1.3% in the second quarter. Meanwhile, the USA’s real estate market is showing positive signs – helped by mortgage rates being at record lows. According to figures from the US Commerce Department purchases of new homes rose in September to the highest level in more than two years.

The presidential election, completion of Operation Twist and the menacing fiscal cliff will make the next two months an eventful period for the dollar – take note anyone exposed to the strength of the greenback.
United States forecasts

Presidential elections, fiscal cliffs and risk appetite/risk aversion make it very difficult to be sure where to next for the US dollar. That is why the twelve month forecasts are so diverse with one bank forecasting US£1.78/£1 in twelve months and another US$1.56/£1. The conclusion from all this is to keep a very close eye on the exchange rate and make sure you have a clear plan of action for the various possible eventualities as it would be a shame not to take advantage of a good rate or minimise your risks from rates moving against you.

GBP/USD expectations for 2012

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Source: FX Week
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