In this month’s issue:
• Is Sterling on course for an annus horribilis?
• The Euro’s bounce-back – how long can it last?
• Smarts thoughts to successful trading in China
• Why the US’s debt ceiling could affect the US$
Dear Reader,

Welcome to the February 2013 edition of Outlook.

January is never the cheeriest time of the year, making it an especially bleak month for Sterling. A raft of dismal economic data, including poorer than expected Gross Domestic Product (GDP) results, helped Sterling to steadily lose value throughout the month. The whole question surrounding the UK’s future in the European Union is only fanning the flames of uncertainty, and doing nothing to reassure UK SMEs about their future trading partners as they struggle in today’s difficult economic conditions.

Across the Channel, it’s been the opposite for the euro. How many of us predicted the single currency would be back to levels against Sterling not seen since 2011. There’s certainly a new air of confidence in the Eurozone, at least a belief Member states can get through their crisis. But how long the euro can remain so strong, given the economic fragility of some of its Members, notably Spain, remains to be seen.

Meanwhile, the US economy took a hit last month when figures showed it unexpectedly recorded negative growth in the final three months of 2012. The signs are this was a blip in the recovery of the world’s largest economy, growth will resume in 2013 and the dollar’s safe haven status remains strong.

Given the Chinese New Year falls on 10th February, our special feature this month looks at the cultural and regulatory barriers that UK firms need to overcome if they want to succeed in business in China. Remember, we now trade in Chinese Renminbi, so are ready to formulate a payment strategy and save money for any readers who already trade in China, or plan to in the near future.

Enjoy this month’s Outlook, and we wish you continuing success for 2013.

Carl Hasty
Director, Smart Currency Business

Key economic data releases in February 2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Country</th>
<th>Key event/data release</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 7</td>
<td>UK/Europe</td>
<td>Bank of England and ECB announcements</td>
</tr>
<tr>
<td>February 12</td>
<td>UK</td>
<td>Producer Price Index, Consumer Price Index</td>
</tr>
<tr>
<td>February 14</td>
<td>Europe/USA</td>
<td>GDP Flash and Jobless claims respectively</td>
</tr>
<tr>
<td>February 15</td>
<td>UK</td>
<td>Retail Sales</td>
</tr>
<tr>
<td>February 20</td>
<td>USA</td>
<td>Producer Price Index and Housing Starts</td>
</tr>
<tr>
<td>February 20</td>
<td>UK</td>
<td>Labour Market Report</td>
</tr>
<tr>
<td>February 27/28</td>
<td>UK/USA</td>
<td>GDP respectively</td>
</tr>
</tbody>
</table>

Sterling

Sterling has suffered a serious case of January blues. Poor GDP figures and the threat of a triple-dip recession were the final blow during a month that saw it depreciate over 3.0 per cent against a basket of major currencies since the start of 2013, including over 7.0 per cent against the euro.

News that the UK economy shrank by 0.3 per cent during the fourth quarter of 2012, compared to an expected 0.1 per cent, compounded by poor services and manufacturing data and a struggling retail sector, which has seen a raft of high street names go into administration, have helped drive down Sterling’s value - by 30th January, it had hit a 14-month low against the euro. Suddenly, that boost to GDP from the Olympics in the third quarter of last year, which saw 0.9 per cent growth, and those highs of £1/€1.28 during last summer seem like an age ago.

So where next for Sterling? Hype of an EU referendum and the consequences of the UK leaving the European Union, however unlikely that is at this stage, are doing little for confidence in British industry. This uncertainty teamed with continuing weak economic data, and the lingering threat of the UK losing its triple-A credit rating, is reducing Sterling’s safe haven status, driving investors away from Sterling...
Barriers to growth in China are not always obvious

It is no secret that the Chinese economy is one of the strongest and fastest growing on the planet, and many UK businesses are looking to get a slice of this growth, if they are not already doing so.

That is why Smart Currency trades the Renminbi and can help SMEs to manage the associated risks. While it is well-known that the Chinese government controls its currency rather than allowing it to float on the open market, you may not realise that the Government has set parameters within which the Renminbi can trade – meaning there is still potential for you to lose money on your transfers.

However, currency is just one aspect of doing business in China. As one of Smart’s own team discovered while on a recent trade delegation, there are plenty of factors completely unknown to Westerners, which will make or break their success in the country.

“The sheer volume of rumours about Chinese regulations act as a real obstacle to success. Depending on who you speak with or where you look, you can find 100 different responses to a question you have, and none of them may be completely accurate,” said Jana Korpova, Head of Business Development.

“This is a two-way street – there are just as many rumours among Western business people on the technicalities involved in getting into the Chinese market as there are among locals wanting to trade and invest outside of the country. It is important to rely on official information from relevant governments and agencies to ensure the information is accurate and up-to-date.”

Additionally, the language barrier, which is more prevalent in China than it is in Europe where most people speak at least some English, and many other cultural differences between Britons and Chinese also have the potential to damage even the brightest of business prospects if not properly addressed.

“Chinese people will only do business with people with whom they have a personal connection – referred to locally as ‘Guanxi’. They rely on personal connections in order to progress in business,” she said.

“Also, the Chinese do not like saying ‘no’ to anything. For Westerners, this can be a difficult concept to grasp, since nothing is ever definitively ruled out even if the Chinese are adamantly against something. They will either say ‘yes’ or ‘probably’, or not respond at all, instead of giving you a straightforward ‘no’.”

Despite these, and many other, potential hurdles to success, Jana says there is huge potential in China for UK businesses provided they are willing to familiarise themselves with Chinese culture as well as the marketplace.

“I found the Chinese to be very positive and curious. They are eager to learn more and are very gradually being granted more freedoms. There is a real sense of hope that China’s new government will begin to offer increased flexibility and open up more opportunities for international business and investment,” she said.
Eurozone

Summary

Who would have predicted the euro would have had the strongest start to 2013 of all G10 currencies? Even the French Labour Minister’s recent announcement that his country was “totally bankrupt” caused only a momentary wobble for the single currency, unsurprising given France’s precarious economic state is hardly news. There are mutterings of the euro approaching parity with Sterling again, but equally many analysts expect a correction in coming months. At the time of writing (1st February, 2013), mid market rates were €1/£0.869 and €1/$1.365.

The worst is over?

The euro’s fortunes have changed considerably since its low-point of mid-2012, when a possible Greek exit was on the cards and there were deep concerns over Spain’s economy and banks. It was then that European Central Bank President Mario Draghi pledged to save the euro whatever it took. The severity of a Member leaving the Eurozone had hit home and measures were put in place to reduce the cost of borrowing in southern Mediterranean countries, including Italy and Spain.

Confidence is creeping back into the Eurozone. The European Commission’s economic sentiment index rose to 89.2 points in January from 87.8 points in December, against market expectations of an improvement to 88.2. This is the third successive, and appreciable, rise in Eurozone economic sentiment, which is now at a seven-month high. As a result, there is less likelihood of the ECB announcing an interest rate cut, currently at 0.75 per cent, at its meeting on 7th February.

ECB President Draghi made a confident address at World Economic Forum in Davos at the end of January, saying economic conditions are “considerably more favorable” than last year. He added: “The perception we have at the ECB is that the level of economic activity is in the process of stabilizing at a very low level. We foresee a gradual recovery in the second part of the year.” Confidence in the euro was bolstered further when at the end of January bailed out European banks returned about a quarter of the €489 billion they borrowed a year ago in the first of the ECB’s three-year loan offerings.

These positive signs from the Eurozone come despite a worsening economic situation in Spain. Data released at the end of January showed that Spanish GDP fell by 0.7 per cent in the last three months of 2012, compared to an expected 0.6 per cent. This means the Spanish economy was 1.8 per cent smaller in Q4 2012 than Q4 2011, as the austerity package there and the broader Eurozone crisis hinder output and consumer demand. Meanwhile, Greece’s bank refunding group said it would need more time and the Italian stock market has taken a dive. Overall, on-going concerns over economic recovery in the single currency bloc are likely to contribute to the euro surrendering its recent gains – which may well be built on sand – against Sterling and the dollar, just how soon nobody knows.

Eurozone forecasts

With all the changes and events of the last month we have had to revise our thoughts and forecasts significantly. The problems in the Eurozone should not be underestimated but there has been a seismic and positive shift in Eurozone business confidence since the start of the year and the euro has been the main beneficiary. The reverse is true for Sterling where there is a lack of good news and a lack of belief in the UK economy and the UK government. The best that Sterling can hope for is to hold its own but against the euro that is proving to be very difficult and it will take a major and negative event to reverse the trend of the last month. One bank is suggesting a low of €1.12/£1 and given the last month this is clearly on the cards. Perhaps we are returning to the trend of 2011 where Sterling was before the Euro zone crisis of late 2011.
GBP/EUR expectations for 2013

<table>
<thead>
<tr>
<th></th>
<th>1 Month</th>
<th>3 Months</th>
<th>12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart Currency</td>
<td>1.15</td>
<td>1.15</td>
<td>1.15</td>
</tr>
<tr>
<td>Barclays Capital</td>
<td>1.15</td>
<td>1.22</td>
<td>1.28</td>
</tr>
</tbody>
</table>

Source: FX Week

EUR/USD expectations for 2013

<table>
<thead>
<tr>
<th></th>
<th>1 Month</th>
<th>3 Months</th>
<th>12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart Currency</td>
<td>1.35</td>
<td>1.30</td>
<td>1.27</td>
</tr>
<tr>
<td>Barclays Capital</td>
<td>1.36</td>
<td>1.32</td>
<td>1.22</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>1.35</td>
<td>1.35</td>
<td>1.32</td>
</tr>
<tr>
<td>HSBC</td>
<td>1.33</td>
<td>1.34</td>
<td>1.35</td>
</tr>
</tbody>
</table>

Source: FX Week
United States

Summary

GDP data for the US showed an unexpected fall of 0.1 per cent for the last quarter of 2012, the first time the American economy has declined since 2009 during the global recession. At the same time, the Federal Open Market Committee (FOMC) decided to maintain its interest rate in a band between 0 and 0.25 per cent, as well as keep its level of Quantative Easing (QE) on hold, at least for the time being. No increase in QE and caution from investors at the US’s poor GDP data should boost the dollar’s safe haven status, meaning it could gain against the euro and Sterling in February. At the time of writing (1st February 2013), mid market rates were $1/£0.637 and $1/€0.733.

One-time dip?
The FOMC believes the poor GDP data for Q4 2012, primarily a result of a cut in federal spending on defence, won’t carry forward and that growth should resume in 2013, staying on trend with a 2 to 2.5 per cent growth rate. In its 30th January statement, the FOMC also announced a continuation of its ultra-loose monetary policy and low interest rates, until the overall rate of US unemployment drops below 6.5 per cent or inflation rises above 2.5 per cent - the jobless claims data due on 14th February will be closely watched. Meanwhile, a steadily improving real estate market is expected to help drive economic growth in the US, and data for housing starts on 20th February could have an effect on the dollar.

Debt limit
Freshly inaugurated as President, Obama is expected to sign a bill allowing the government to borrow hundreds of billions of dollars more to meet its obligations, and avoid a potential default in February. This move only delays an inevitable clash in March between Republicans and Democrats over automatic across-the-board spending cuts that would affect the Pentagon and some domestic programs. Like the hype surrounding the fiscal cliff, this uncertain time could cause wobbles in the dollar’s value over coming weeks.

A raft of variables will cause minor ripples for the dollar over coming weeks, but the general trend of the world’s largest economy remaining bullish compared with the UK and Europe, should keep the greenback more stable than most major currencies, including the euro and Sterling.
United States forecasts

More difficult to know where to next for the US dollar as increases in business confidence and hence risk appetite tend to weaken it as funds are moved elsewhere. Also the on-going QE undermines it. However there are some very significant potential problems in the next six months as the US politicians have to agree on the debt ceiling and budget cuts. This could well be fractious and taken to the wire as previous negotiations between the Republicans and Democrats have been. This would strangely strengthen the US dollar given its safe haven status.

GBP/USD expectations for 2013

<table>
<thead>
<tr>
<th></th>
<th>1 Month</th>
<th>3 Months</th>
<th>12 Months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Smart Currency</td>
<td>1.57</td>
<td>1.60</td>
<td>1.58</td>
</tr>
<tr>
<td>Barclays Capital</td>
<td>1.60</td>
<td>1.62</td>
<td>1.56</td>
</tr>
<tr>
<td>BNP Paribas</td>
<td>1.68</td>
<td>1.73</td>
<td>1.78</td>
</tr>
<tr>
<td>HSBC</td>
<td>1.61</td>
<td>1.60</td>
<td>1.52</td>
</tr>
</tbody>
</table>

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

---

**Do you know a business which would benefit from using Smart?**  
Ring us on 020 7898 0500 or go to www.smartcurrencybusiness.com/referral.aspx and get a £50 M&S voucher when the company trades

**Scan the QR code here to download our free iPhone and iPad currency convertor apps**

---

**Disclaimer:**  
Smart Currency Exchange Ltd is authorised by the Financial Services Authority under the Payment Services Regulations 2009 (FRN 504509) for the provision of payment services.  
Smart Currency Exchange Ltd is authorised and regulated by HM Revenue and Customs under the MLR no 12198457.  
The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy or sell.  
All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy.

www.smartcurrencybusiness.com  
twitter.com/smartcbusiness  
Search ‘smart currency’ on Facebook and LinkedIn