NAVIGATING CURRENCY VOLATILITY IN Q3 2024

Insights for CFOs

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ELECTION SEASON IN EUROPE

KEY HIGHLIGHTS

- Snap elections on both sides of the English Channel prompted varying degrees of currency market movement at the start of Q3.
- In the UK, Labour's landslide victory had been anticipated by opinion polls for weeks. The muted reaction of the pound, which edged higher following confirmation of the result, reflected that it had already been priced into currency markets.
- The first round of voting in France caused the euro to surge after the far-right National Rally (RN) party won, but with less support than expected. The single currency retreated following the second round amid renewed political uncertainty. A left-wing alliance called New Popular Front won the most seats, with President Macron's centrists coming second, pushing RN into third - but with no party holding a majority.

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LANDSLIDE LABOUR WIN PRICED INTO CURRENCY MARKETS

Keir Starmer secured the 326 seats required for a majority in the House of Commons, ending 14 years of Conservative rule. This results in a Labour prime minister in Number 10 for the first time since 2010, with Starmer promising to restore stability, drive economic growth, and adopt a fiscally responsible approach.

A large Labour majority had been widely expected, leading to a muted reaction in financial markets. The pound edged up 0.1% against the dollar to almost $1.28, its highest since mid-June, consolidating its position as the strongest performing major currency against the dollar this year. Against the euro, it rose 0.01% to €1.180.

The landslide provides clarity and stability to currency markets, potentially benefiting the pound. A Bloomberg survey in September 2023 showed about two-thirds of finance professionals backed Starmer as PM. The shift to Labour has sparked investor optimism that Starmer, seen as market-friendly and fiscally orthodox, can revive the economy. Consequently, the pound has returned to levels seen in 2016 on a trade-weighted basis, supporting predictions that the UK currency is emerging from post-Brexit volatility.

HUNG PARLIAMENT IN FRANCE UNDERMINES EURO

The French President called a snap election after his party suffered a big loss at the EU elections that saw Marine Le Pen's far-right National Rally (RN) party win over 31% of the vote - more than double that of Macron's Renaissance party.

The RN topped the first round of elections with a third of the total vote but won less support than many opinion polls had predicted. Political anxiety subsequently eased as fears of a majority RN government faded, causing the pound to fall to a three-week low around €1.177 against the euro, which surged in value.

Things went from bad to worse for RN. With the champagne on ice, after opinion polls predicted victory in the second round of voting, they were forced to cancel the victory party after slumping to third place behind a left-wing alliance called New Popular Front and Macron's centrists. France now faces a hung parliament after no party came close to achieving a majority - an uncertain political landscape that caused the euro to fall in value.

While markets had rallied after the first round on the belief that the right-wing RN would fail to win an absolute majority, uncertainty has been renewed amid a vacuum regarding France's legislative ability.

BANK OF ENGLAND

HOLD

The BoE enacted a widely anticipated interest rate hold, accompanied by some dovish forward guidance that signalled a reduction was possible as soon as its next meeting in August.

EUROPEAN CENTRAL BANK

CUT

While the ECB cut rates by 25bps as expected, it reiterated a data-driven approach to future decisions and refused to commit to a clear pathway for monetary policy unwinding.

FEDERAL OPEN MARKET COMMITTEE

HOLD

Having kept interest rates on hold at 5.5%, the Fed's accompanying press release revealed that central bank policymakers are now pencilling in just one interest rate cut this year.

ECB LEADS RATE CUT CHARGE: WHEN WILL BOE AND FED FOLLOW? 2024

KEY HIGHLIGHTS

- The ECB all but promised a first rate cut since 2019 in June after seeing inflation cool. They duly obliged, becoming the second G7 central bank to begin loosening policy this cycle after the Bank of Canada - but stressed a cautious approach to future decisions

- The move saw the ECB's policy outlook deviate from that of the BoE and Fed, which both extended rate cut forecasts. A trio of factors - cooling inflation, dovish rhetoric and Labour's majority - have prompted investors to dial up bets on a first UK rate cut in August. Meanwhile, market analysts expect the Fed to trigger its rate-cutting cycle in September or November amid sticky inflation. Macron's centrists coming second, pushing RN into third - but with no party holding a majority.

Following months of cautious monetary policy due to global inflation, interest rate cuts began at the end of Q2, typically weighing on the respective currencies.

The Bank of Canada was the first G7 central bank to lower rates on 5 June, followed by the European Central Bank (ECB) on 6 June, marking its first cut since 2019. In contrast, the Bank of England (BoE) and the Federal Reserve have delayed loosening their policies.

At the end of Q1, the interest rate outlook was as follows:

	End of Q1 24	Likely month of cutting cycle beginning	Implied Basis point cuts during 2024	Implied Dec 24 Interest Rate
BoE	5.25%	Aug 24	-75.61	4.45%
ECB	4.00%	June 24	-97.21	2.92%
FOMC	5.25-5.5%	June 24	-89.8	4.43%

Following the recent interest rate decisions from all three central banks, we are now seeing an updated market view:

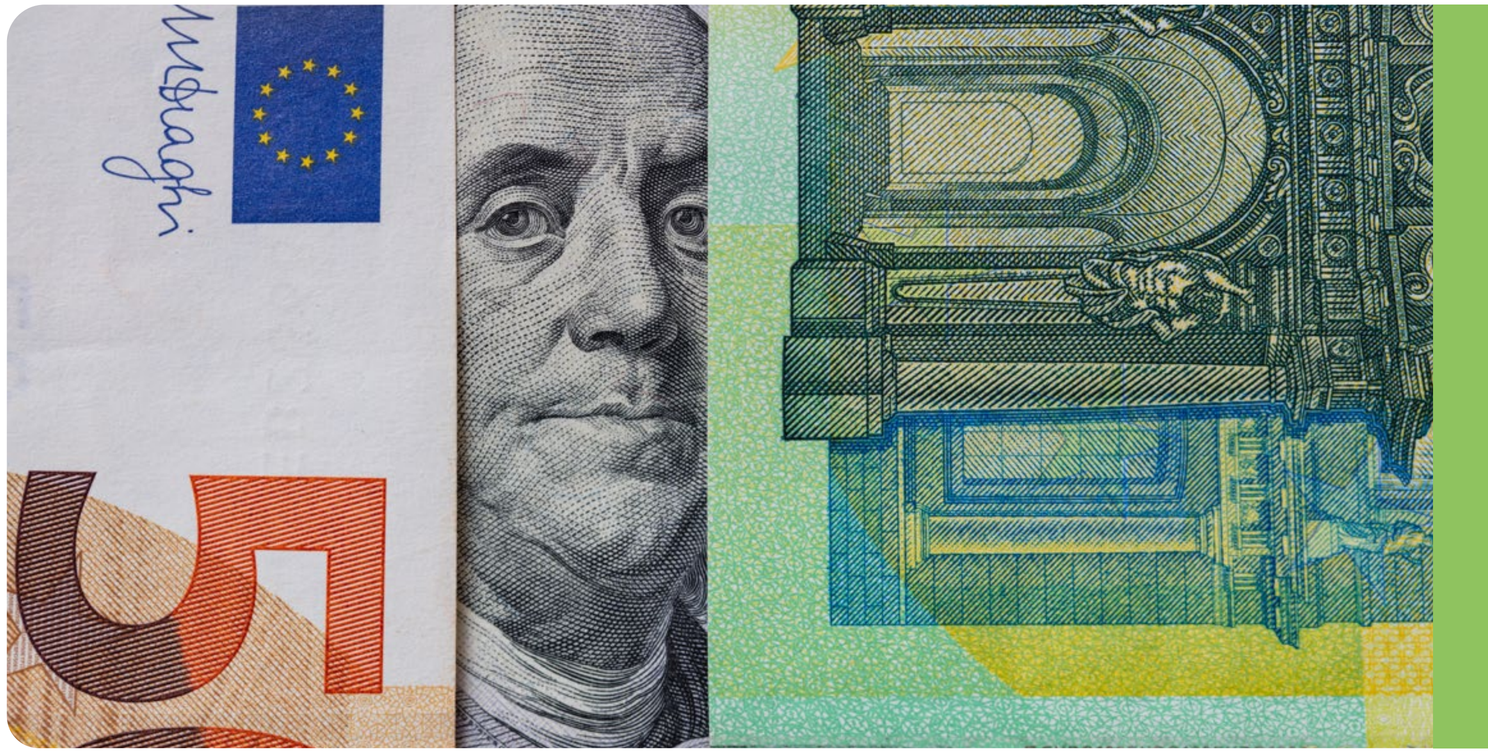
	End of Q2 24	Month of Next Fully Priced In Cut	Implied Basis point cuts during 2024	Implied Dec 24 Interest Rate
BoE	5.25%	Nov 24	-46.85	4.71%
ECB	3.75%	Oct 24	-46.36	3.24%
FOMC	5.25-5.5%	Nov 24	-47.10	4.85%

Expectations for BoE and Fed cuts are complicated by persistent wage growth and service level inflation, as well as potential political changes. This "higher for longer" trend is evident in the implied December 2024 interest rates. After its rate cut, the ECB emphasized a cautious, data-dependent approach, not committing to a specific rate path.

UK inflation cooling to the BoE's 2% target in May increased bets on a potential rate cut at the BoE's August meeting to nearly 50-50. Subtly dovish messages from central bank rate-setters after the BoE's June meeting pressured the pound as a summer rate cut seemed possible. Following Labour's victory, new Chancellor of the Exchequer Rachel Reeves faces the challenge of restoring economic growth. Market predictions for an August rate cut rose to 60% post-election, with the pound's trajectory dependent on BoE policy compared to the ECB and Fed.

Though unlikely, the Federal Open Market Committee might vote for a US rate cut at its 31 July meeting, potentially undermining the dollar. However, most expect the first cut in September or November amid persistent inflation. Global interest rates have begun to fall, with the outlook for rates changing significantly in the first half of the year. Lower headline inflation suggests the rate-cutting cycle for the BoE and FOMC may begin in Q3, presenting significant risks even if not fully priced in the Bank of England (BoE) and the Federal Reserve has seen the UK and US central banks push out their loosening forecast to later in the year.

BoE (August Meeting)	**60%** probability of a cut
ECB (September Meeting)	**80%** probability of a cut
FOMC (September Meeting)	**80%** probability of a cut



FX FORECASTS

The forecasted trends of GBPUSD, GBPEUR and EURUSD will be circumstantial depending on various outcomes such as the global economy, rate decisions from central banks and geopolitical factors. This means that there is a variety of contrasting views from respected institutions, highlighting the difficulty in trying to call the markets

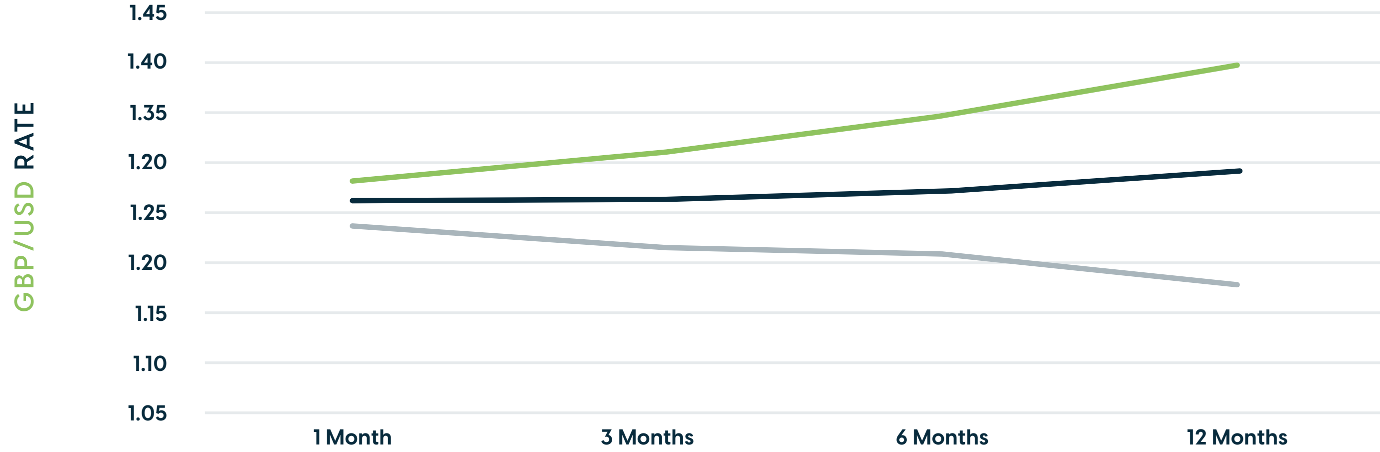
The following data has been taken from LSEG Data & Analytics and interpreted from forecasts from over 40 financial institutions. Rather than showing individual forecasts, we have taken the high, the mean and the low. Whilst the data is subjective, it does highlight the vast divergence of views based on the current environment.

GBPUSD	1 Month	3 Months	6 Months	12 Months
High	1.2833	1.3100	1.3500	1.4000
Mean	1.2648	1.2651	1.2727	1.2922
Low	1.2400	1.2200	1.2100	1.1800

EURUSD	1 Month	3 Months	6 Months	12 Months
High	1.0933	1.1300	1.1800	1.1900
Mean	1.0713	1.0739	1.0825	1.1006
Low	1.0500	1.0400	1.0300	1.0000

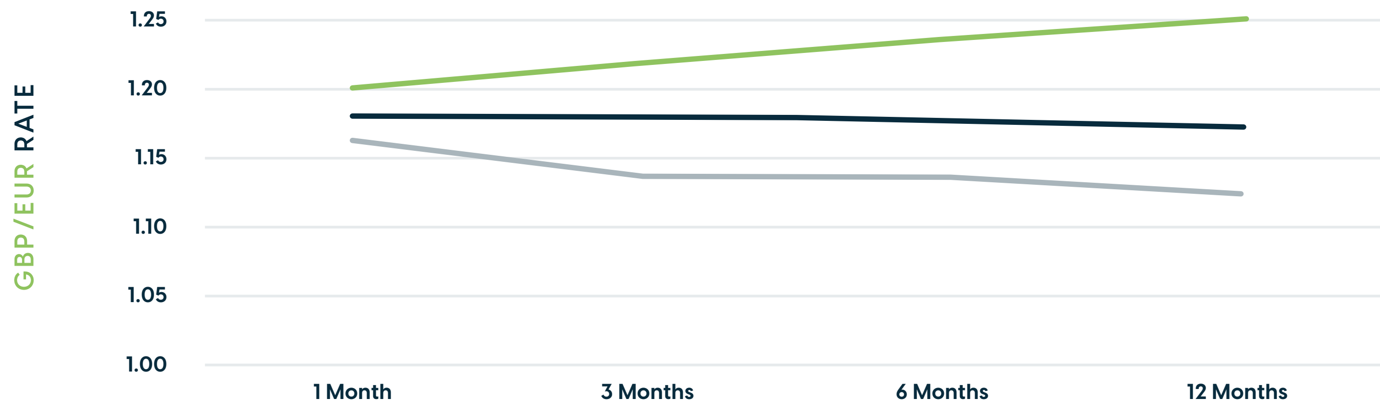
GBPEUR	1 Month	3 Months	6 Months	12 Months
High	1.2000	1.2195	1.2346	1.2500
Mean	1.1802	1.1799	1.1766	1.1732
Low	1.1628	1.1364	1.1364	1.1236

GBPUSD FORECASTS



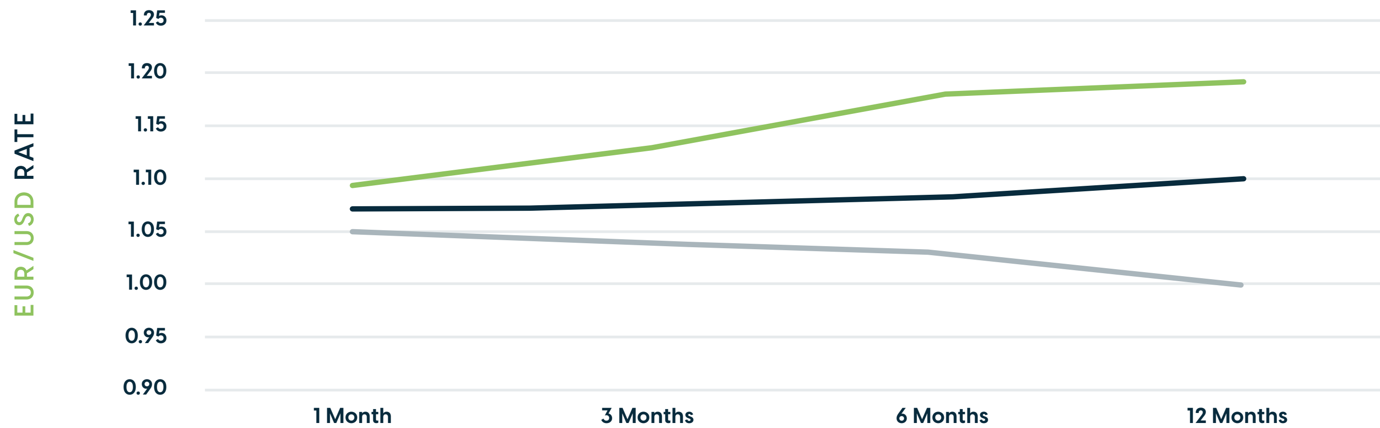
The forecast for **GBPUSD** indicates a moderately wide level between high and low projections over three months, with a potential peak at **1.3100** and a low of **1.2200**. Looking ahead, the six-month and twelve-month forecasts suggests a wider potential range, whilst the mean forecast is cautiously optimistic for **GBPUSD** to trend higher.

GBPEUR FORECASTS



The forecast for **GBPEUR** indicates a moderately wide level between high and low projections over three months, with a potential peak at **1.2195** and a low of **1.1364**. Looking ahead, the six-month and twelve-month forecasts suggests a wider potential range, whilst the mean forecast is relatively consistent throughout the 12 month period but to the downside.

EURUSD FORECASTS



The forecast for **EURUSD** indicates a moderately wide level between high and low projections over three months, with a potential peak at **1.1300** and a low of **1.0400**. Looking ahead, the six-month and twelve-month forecasts suggests a wider potential range, whilst the mean forecast is cautiously optimistic for **EURUSD** to trend higher.

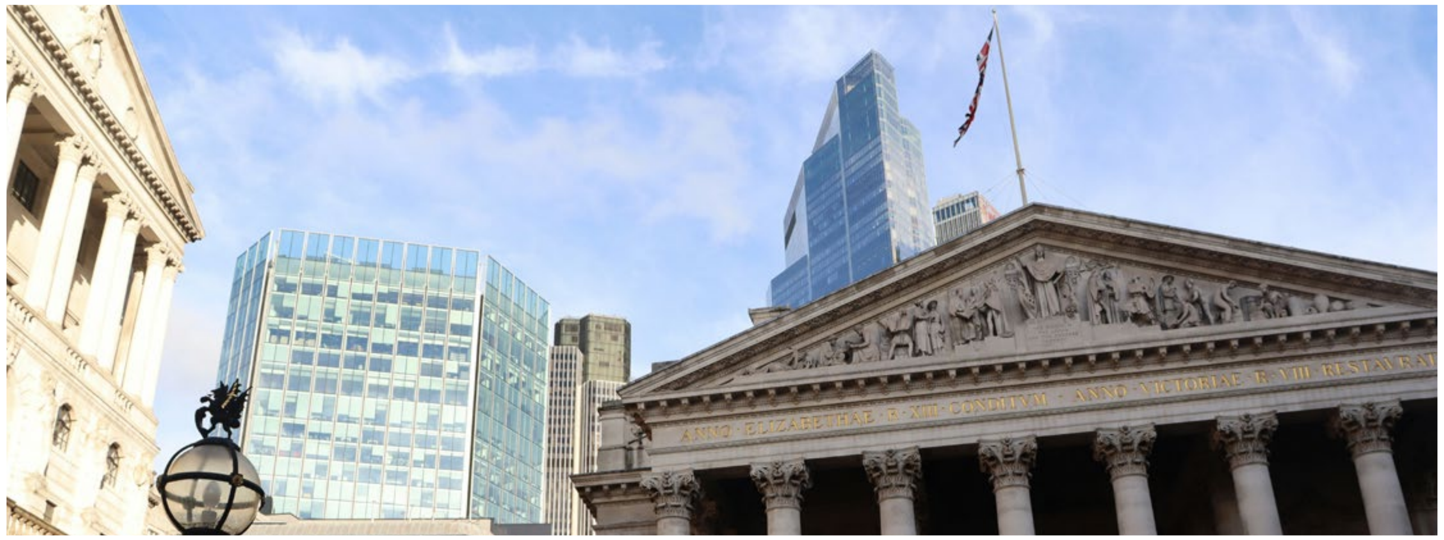
Q2 REVIEW UK ECONOMY EMERGES FROM SHALLOW RECESSION

KEY HIGHLIGHTS

Confirmation that the UK slid into recession at the end of 2023 caused the pound to soften in February, as BoE rate cut speculation ramped up. The economy soon bounced back with stronger-than-expected growth in Q1 2024. News of the swift recovery gave the pound a shot in the arm in May. Macron's centrists coming second, pushing RN into third - but with no party holding a majority.

In February, it was confirmed that the UK fell into recession at the end of 2023 after shrinking for two three-month periods in a row, partly caused by people spending less as they faced inflated shop prices and higher interest rates pushing up mortgage costs. The news caused the pound to weaken against the dollar and the euro and investors to dial up bets on the BoE cutting interest rates this year to stimulate economic growth.

In May, confirmation of **stronger-than-expected growth at the start of the year saw the UK emerge from what proved to be the mildest economic downturn in recent records**. GDP figures showed the economy grew by 0.6% between January and March, the fastest rate in nearly three years. In June, revised figures showed the economy's recovery from recession was stronger than previously projected with GDP growing by 0.7% between January and March. These encouraging signs of economic growth amid high interest rates, which tend to cause GDP to slow, helped to keep the pound afloat as rate cut expectations subsided.



Q3 OUTLOOK ECONOMIC DATA STANDS BETWEEN BOE AND FIRST RATE CUT

KEY HIGHLIGHTS

With the battle against inflation tipping in the BoE's favour, the clamour to cut interest rates from a 16-year high could apply pressure to the pound. BoE policy loosening in Q3 is not a done deal, however, with two key economic factors presenting an obstacle: if services sector inflation remains sticky and economic resilience persists, investors might reduce their rate cut bets, which could lend the pound support.

With interest rates still inflated at 5.25% - the highest level for 16 years - in the battle against inflation, the potential for imminent cuts amid easing price pressures could weigh on the pound in Q3. This brings upcoming UK inflation data into sharp focus for the BoE, including the potential for it to creep back up to 2.5%, as the central bank weighs up when to pull the trigger on its rate-cutting cycle. Crucially, services inflation, which tempered rate cut bets by remaining stubborn at 5.7% in May despite a cooling headline figure, remains 0.4 percentage points above the BoE's forecast from the May Monetary Policy Report - amplifying the importance of services readings in Q3.

Rate cut speculation is also being stoked by the UK wage growth outlook. According to the BoE's Decision Maker Panel survey, British employers expect wage bill growth to stall over the coming 12 months - conditions that could encourage central bank rate-setters to loosen monetary policy.

"Annual wage growth was 6.0% in the three months to June, unchanged from the three months to May," the BoE said. "Firms therefore expect their wage growth to decline by 1.8 percentage points over the next 12 months based on three-month averages."

However, ongoing resilience in economic activity could dilute rate cut expectations. The latest KPMG Global Economic Outlook forecasts economic growth in the near term and beyond: *"Following a technical recession in the second half of 2023, the UK economy has shown tentative signs of renewed momentum, with growth of 0.5% expected this year, and 0.9% in 2025."*

EUROZONE

Q2 REVIEW MONETARY POLICY DIVERGENCE DENTS EURO

KEY HIGHLIGHTS

Having uncoupled its monetary policy from the BoE and Fed by enacting a rate cut in June, the ECB struck a hawkish tone that cushioned the euro's fall. However, this widening divergence was compounded by ebbing US rate cut expectations amid a robust domestic labour market.

While downward pressure on the euro from the ECB's widely expected interest rate cut in June was initially cushioned by the central bank's hawkish tone, policy divergence soon took its toll on the single currency.

A sudden, and unexpected, appreciation in US job creation in May caused investors to dial back bets of a summer rate cut by the Fed, sending the dollar skyward. This weighed on the euro due to its negative trading relationship with the US currency. Crucially, the adjusted Fed rate cut bets increased the potential for a widening monetary policy divergence between the ECB, the Fed, and the BoE - with the US and UK central banks still pondering when to start their rate-cutting cycle.

Q3 OUTLOOK INFLATION FIGURES IN FOCUS FOR ECB

KEY HIGHLIGHTS

Having cut interest rates and reiterated a data-driven approach to future decisions, upcoming inflation figures will be a key determining factor for the ECB. The central bank will be hoping for further confirmation of easing price pressures in the Eurozone, as it seeks to unwind rates further - which could weaken the euro. The single currency could also feel the weight of German economic stagnation.

The ECB's "data-dependent" approach to monetary policy over the next three months, and beyond, will largely depend on inflation figures from the bloc. This began with the print for the year to June which showed Eurozone inflation slowed to an expected 2.5% from 2.6% the previous month. ECB policymakers will also keep a close eye on inflation in Germany - the Eurozone's largest economy - which fell more than expected in June, resuming its downward trend after two consecutive months of increases. The prints, released at the start of Q3, left the door open for another rate cut by the ECB in September, which weighed on the euro. Slowing price rises in the Eurozone will provide some relief for the ECB, which cut interest rates in expectation of inflation hitting the central bank's 2% target by next year.

The beleaguered German economy, the worst-performing major economy in the world last year, is forecast to stagnate for the remainder of 2024 having skirted a recession at the start of the year - a period of dormancy that could pressure the euro if the ECB cuts rates further to stimulate economic growth. According to German economic institute IW, the domestic economy will continue to trail its European contemporaries amid ongoing recession in the manufacturing and construction sectors in particular. IW foresees consumption as the only glimmer of hope, which could accelerate as inflation eases from 5.9% in 2023 to within touching distance of the ECB's 2% target.

USA

Q2 REVIEW FED SLASHES POLICY FORECAST

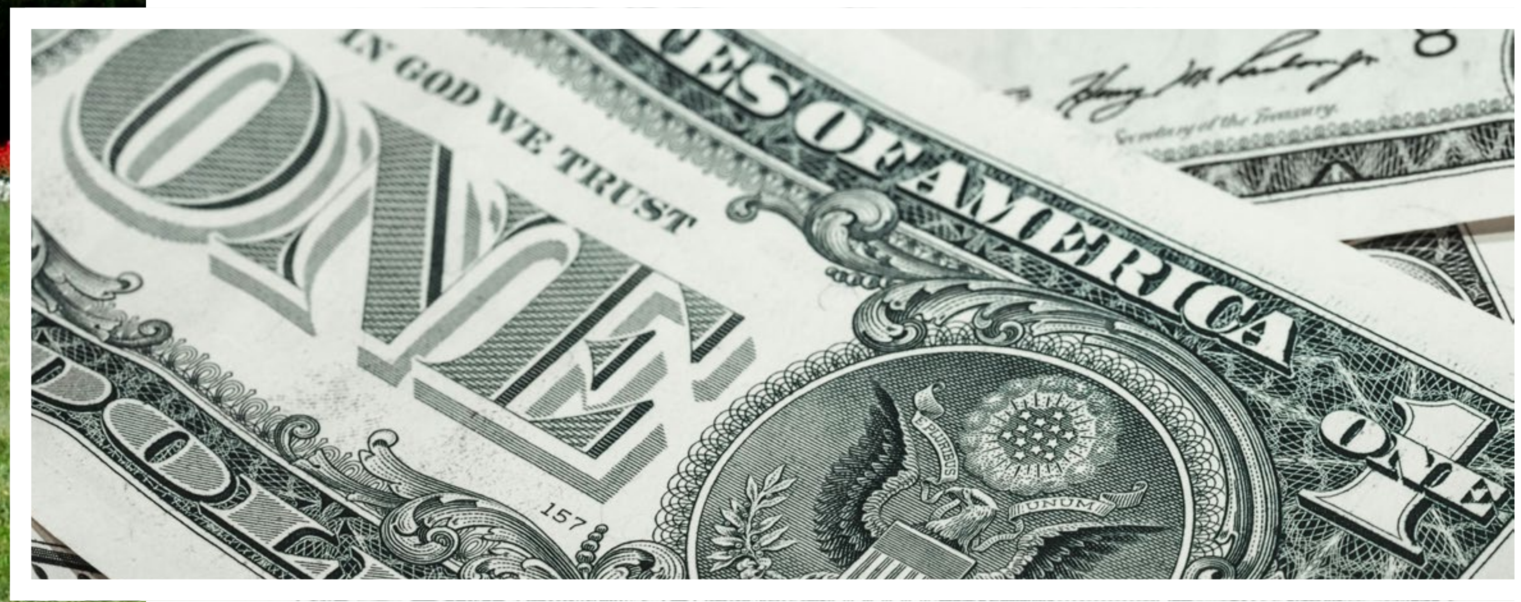
KEY HIGHLIGHTS

Fed rate cut expectations this year have been trimmed from six in January, to three in March, to one by the end of Q2 - a hawkish view that leant the dollar support. This fluid outlook was made against a backdrop of stubborn US inflation, which is making slow progress towards the Fed's 2% target. However, a resurgent US labour market gave the Fed cause for optimism.

The dollar has been subject to an exceptionally dynamic US interest rate outlook this year. **Investors' 2024 rate cut expectations, which peaked at more than six cuts in January, were slashed to three in March and stood at one by the end of the second quarter.**

The Fed's statement that accompanied its June rate announcement, when it held its target federal funds interest rate steady again, acknowledged *"modest further progress"* toward its 2% inflation target. This echoed the ongoing deceleration in stubborn service inflation observed in the April CPI report, which Fed Chairman Jerome Powell also noted as *"progress"* but needs to see more good data before cutting rates. Another positive note in the battle against inflation has been the US labour market, which Powell remarked is back to pre-COVID levels.

However, despite ticking 0.1% lower in the 12 months to April, between April and May US inflation was unchanged and it remains above the Fed's target - sticky conditions that have prompted the Fed's aggressive reduction in policy loosening forecasts this year.



Q3 OUTLOOK WILL US INFLATION REMAIN STUBBORN?

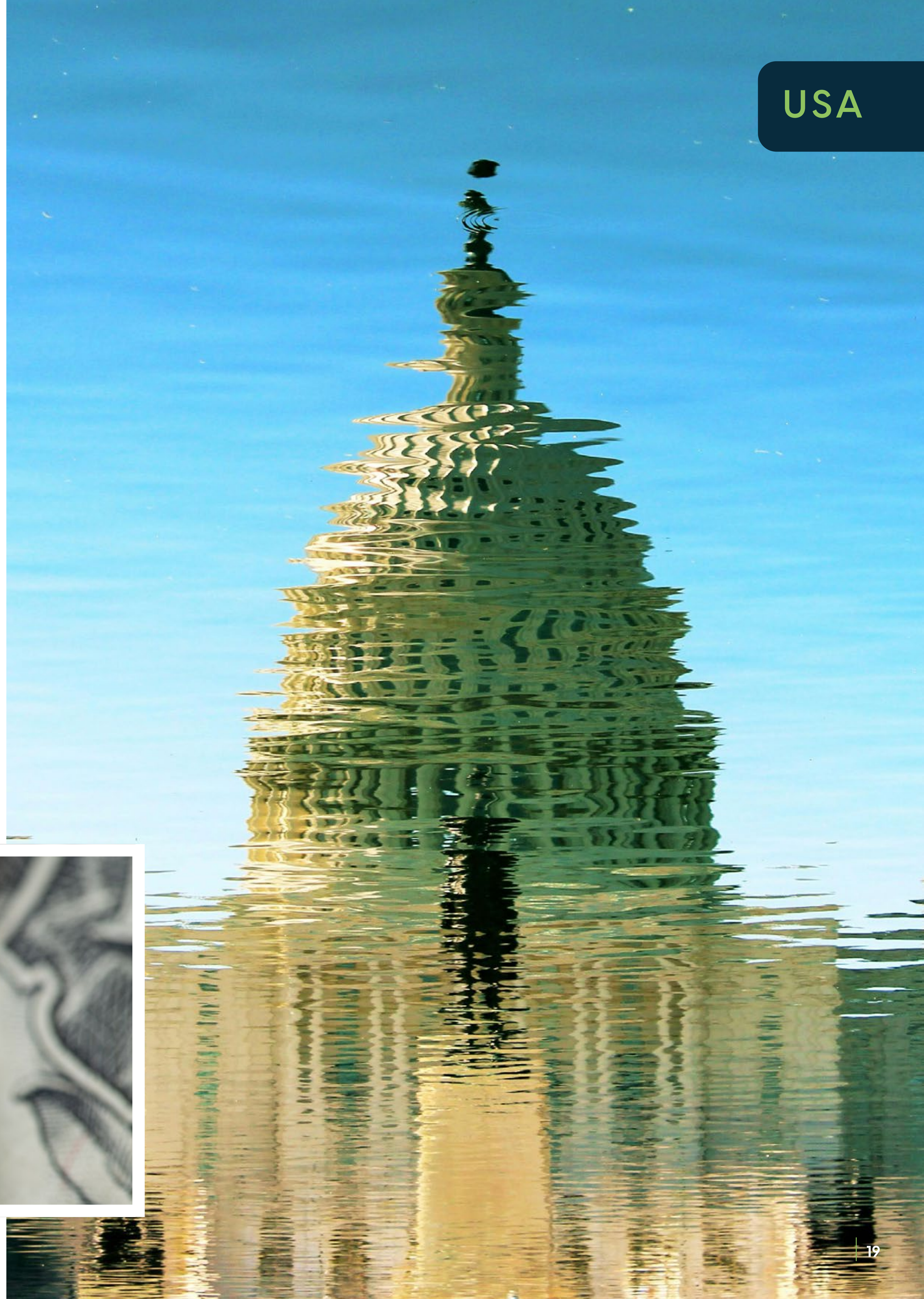
KEY HIGHLIGHTS

Economists don't expect price pressures in the US to ease much more in Q3. Consequently, the Fed's current policy roadmap only has one interest rate cut pencilled in, which isn't expected to happen until September at the earliest - nor is it expected to have a huge impact on the US economy due to its modest size.

FOMC policymakers were split in June over how many interest rate cuts they expected this year. Of the 19 rate-setters who provided their outlook, four expected no cut, seven forecasted one reduction while eight thought there would be two.

This cautious view was made against a backdrop of stubborn US inflation. As we entered 2024, research and advisory firm Forrester forecast US headline inflation to decrease from an average of 4.1% in 2023 to 2.6% in 2024. Fast-forward to the end of the second quarter and economists now don't expect annual CPI numbers for the remainder of 2024 to dip much below the current rate of 3.3%, amid higher costs for gasoline and shelter.

Consequently, the Fed is signalling that it will make one modest rate cut to 5%-5.25%, which is now expected to happen no earlier than September. While Mr Powell acknowledged that such a marginal reduction would not have a major impact on the US economy, he said when a cut is finally made it would be *"a consequential decision for the economy"* which *"you want to get right"*.



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2000
Foreign Currency Direct launches

2007
Infinity International launches

2011
Foreign Currency Direct becomes FCA authorised payments institution

2012
Infinity International becomes FCA authorised payments institution

2015
Infinity International becomes FCA authorised investment firm

2018
Pollen Street Capital acquires Foreign Currency Direct and Pure FX

2019
Pollen Street Capital acquires Infinity International

2019
Foreign Currency Direct opens offices in Spain and Portugal

2020
Foreign Currency Direct Europe launches in Dublin, Ireland

2021
Foreign Currency Direct, Infinity International & associated brands become Lumon, trading over £3b in 2021

2022
Lumon moves into a new office space in Farringdon, London

2023
Traded £8.8b in total group currency exchange

- **£8.8b** in total group currency exchange in 2023
- Dedicated currency strategist with an average of **12 years' experience**
- Offices in **UK**, **Ireland**, **France**, **Portugal** and **Spain**
- Backed by Pollen Street Capital with over **£4b** under management
- Banking relationships with **tier 1 banks**

Trusted currency partner of over 2,500 businesses across the UK, Europe and USA

As an international payment and currency risk management specialist, Lumon provides bespoke services and a dynamic product suite for businesses, with specialist knowledge across a variety of sectors. Collaborating with you, we design, implement, and monitor a tailored hedging strategy aligned with your operating model and business objectives. Providing excellent service and secure payments is our top priority, which is underpinned with competitive rates and tailored risk management solutions. Our approach to currency risk management is your strategic advantage.

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Group CEO

Leigh Bridger
Group CFO

Darren Bentley
CCO

Lloyd Eagles
Managing Director Corporate

CURRENCY RISK MANAGEMENT SPECIALISTS

Lumon understands the typical challenges and difficulties encountered by businesses in managing FX risk and international payments. Too frequently, the most basic problems persist without resolution, as companies neglect to adopt straightforward measures to reduce expenses, enhance efficiencies and save time.

At Lumon, we look to remove the burden that FX brings, offering transparency, stability and certainty in what is often an extremely opaque market. Leveraging years of expertise, unparalleled resources, and a human led approach, we look to understand your risk exposures and business objectives, and will collaborate with you to build a resilient approach to manage your FX exposure. Our team of dedicated dealers comprises industry-focused specialists who understand the dynamics and intricacies of managing FX risk within these environments.

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We deliver this proactive approach to FX risk management using a structured step-by-step process:

1. **Understand the risk**
   Beginning with a FX risk assessment, we meticulously analyse your market exposure, pain points, risk appetite, and any other industry-specific variables that influence your objectives.

2. **Design the strategy**
   Next, we craft a tailored risk management strategy, ensuring every aspect of your business is safeguarded from potential currency fluctuations.

3. **Execute the hedge**
   Through seamless execution of the hedge, we mitigate any unforeseen financial risks and expedite the transfer of funds, allowing you to focus on your core operations.

4. **Ongoing monitoring**
   We provide continuous, vigilant monitoring to swiftly adapt your strategy to market dynamics, ensuring your financial stability remains intact.

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We are always ready to help you with your currency needs.
Get in touch with the team at: business@lumonpay.com

OUR OFFICES

UK

40 Holborn Viaduct
London
EC1N 2PB
+44 (0)203 384 7280

IRELAND

2 Dublin Landings
North Wall Quay
North Dock, Dublin 1
DO1 V4A3
+353 (0) 1 592 1528

SPAIN

LOS ALCAZARES
Calle Rio Borines 62
Bajo, Puerta 1, 30710,
Los Alcazares
+34 968 97 18 18

ORIHUELA COSTA
Avda de las Brisas 5,
Local 3
03189 Orihuela Costa
+34 965 99 99 10

JAVEA
Avda. Del Plá 135,
03730 Jávea
+34 966 26 07 77

PORTUGAL

Av. da Marina,
Marina Plaza, Bl 19,
Loja 43,
Vilamoura,
8125-401
+351 289 316 014