



CURRENCY NEWS

Here's your Winlock currency update almost 2 years down the line from the Brexit vote. Is anything any clearer??....

£/US\$

The Brexit referendum announcement and subsequent result both hurt sterling quite badly against the dollar. The 5 years or so prior to 2016 saw the £ worth around \$1.55-1.60 on average but in 2016 the average fell to approximately \$1.35 and fell again in 2017 to an average of approximately \$1.28 (with a low of less than \$1.20). In the last 6 months there has been some improvement and year to date sterling has averaged approximately \$1.38. This is still 12-14% below the 2015 average but around 8% better than last year. All in all this should mean some cost reductions heading the way of UK consumers- it might take 6 months or so to feed through but products bought in dollars should be coming down in price. And definitely should not be going up!!

£/ €

The euro is a very different story – in that the fall in sterling against the euro that was started in 2015/16 has steadily continued. The 2015 average was €1.34, falling to €1.22 in 2016 and €1.15 in 2017. It is still low, currently averaging €1.13 so far this year still 15% below the average rate 3 years ago. With so many problems in the EU bloc, mainly to do with Brexit and the Euro, it seems surprising that the euro has remained so strong but it has, and products from Europe are likely to be more expensive this year than they were last year.

£/CNY

The Chinese currency tends to go where the Chinese government want it to go – it certainly is not dictated by usual market forces – and the Chinese government mainly focuses on the rate of the Yuan against the US dollar. In simple terms the Chinese allowed the Yuan to appreciate against the dollar in 2013-15 by about 10% but when things got tougher in 2016/17 they allowed the currency to depreciate by 10% back to the old rate. In the last 12 months the Yuan has strengthened again to approximately 6.30 to the dollar (and approx. 8.70 to the £). 5 years ago the £ was worth approximately 10 CNY so over the period it has depreciated by approximately 15% , but looking back a little further sterling buys about 25% less Yuan than it did 6 or 7 years ago. Factor in average Chinese wage rises of at least 5% per annum during this period and it is easy to see why Chinese products have been getting steadily more expensive – and products bought in CNY (rather than US Dollars) will not be falling in price significantly this year.

Overall the market sentiment seems to be that Brexit will happen but without severe disruption of trade between the UK and the EU. The UK economy has performed better than expected in the last 2 years but consumer spending is now showing signs of weakness so we are by no means out of the woods. If a trade deal is not done on reasonable terms then expect sterling to fall.

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