NAVIGATING CURRENCY VOLATILITY IN Q4 2024

Insights for CFOs

LUMON CORPORATE

POLITICAL AND ECONOMIC FORCES COME INTO VIEW

On this side of the Atlantic, currency markets will be pulled back and forth by impactful economic factors in the fourth quarter - notably the Autumn budget in the UK and the threat of recession in the Eurozone. Meanwhile, in the US, the dollar's performance will be influenced by the biggest political event of the year: the presidential election.

Q4 KEY HIGHLIGHTS

UK Gloomy messaging from the Labour Party, as the government reminds voters about its perilous financial inheritance from the Tories, has fuelled concerns of spending cuts and tax rises when Rachel Reeves delivers her first budget in October. This could apply downward pressure to the pound amid waning economic activity.

US The outcome of the US election in November is finely balanced, with Democrat nominee Kamala Harris holding a narrow lead in national opinion polls over former President Donald Trump. The general market consensus is that a victory for Harris could result in dollar neutrality, while if Trump triumphs again, the US currency could firm.

EURO ZONE Weakening Eurozone business activity in the third quarter and an underperforming German economy have stoked recession fears in the region. This has prompted investors to ramp up bets that the European Central Bank (ECB) will action more interest rate cuts this year to stimulate demand - a dovish view that's already weighing on the euro.

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INTEREST RATES: MOST RECENT DECISIONS

Following a period of stasis amid sticky inflation, monetary policy loosening gathered pace in the third quarter. This was reflected by the most recent policy decisions from major central banks: the US Federal Reserve's first interest rate cut since 2020, the ECB's second cut this year and the Bank of England's (BoE) dovish forward guidance.

UPCOMING CENTRAL BANK POLICY MEETINGS: POTENTIAL OUTCOMES

Market analysts expect the BoE, US Federal Reserve and ECB to cut interest rates following their next policy meetings on 7 November (BoE and Fed) and 12 December respectively. These expectations of further monetary policy loosening are being fuelled by easing price pressures in each economy.

UPDATED INTEREST RATE OUTLOOK 2024

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

	Implied Interest Rates - End of Q4 24	Month of Next Fully Priced In Cut	Implied Basis point cuts during next 12 months	Implied Sept 25 Interest Rate
BoE	4.574%	Dec 24	-132.7	3.60 %
ECB	2.943%	Oct 24	-158.9	1.82%
FOMC	4.098%	Nov 24	-186.0	2.96 %

During Q3 we saw a big change in the interest rate outlook as recessionary fears emerged amid slowing data. In Q3 we saw both the BoE and the Federal Reserve join the ECB and Bank of Canada in cutting interest rates.

Sterling has made gains against both the US dollar and euro as the outlook for the path of cutting interest rates is shallower than both the ECB and the Fed's Federal Open Market Committee (FOMC). We have seen that the interest rate picture has been very fickle in the last six months. Looking at the "Implied Basis point cuts during the next 12 months" if we see the forecasted pace of cuts change from the current market expectations, it's likely to have a knock-on effect with the FX markets.

Next year, the question will be focused on what will be the floor in base rates and how quickly they will get there.

FX FORECASTS

The forecasted trends of GBPEUR, GBPUSD 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 are a variety of contrasting views from respected institutions, highlighting the difficulty in trying to call the markets.

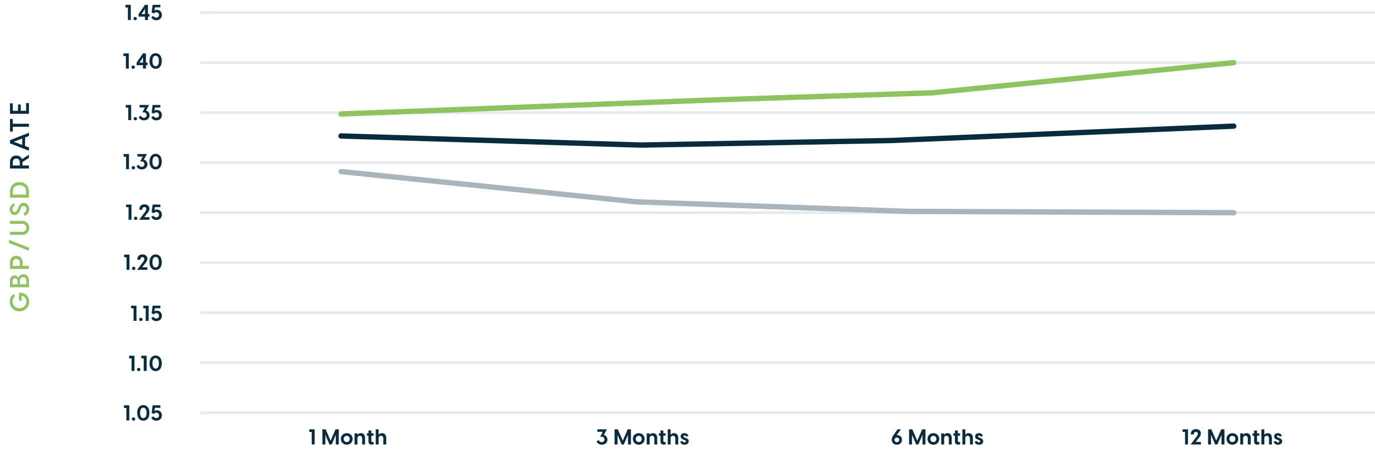
The following data has been taken from LSEG Data & Analytics and interpreted from forecasts from over 40 financial institutions. Rather than showing individual forecasts, we have taken the high, the mean and the low. Whilst the data is subjective, it does highlight the vast divergence of views based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

GBPUSD	1 Month	3 Months	6 Months	12 Months
High	1.3500	1.3600	1.3700	1.4000
Mean	1.3267	1.3182	1.3244	1.3366
Low	1.2900	1.2600	1.2500	1.2500

GBPEUR	1 Month	3 Months	6 Months	12 Months
High	1.2195	1.2195	1.2346	1.2500
Mean	1.1947	1.1901	1.1864	1.1832
Low	1.1455	1.1364	1.1364	1.1236

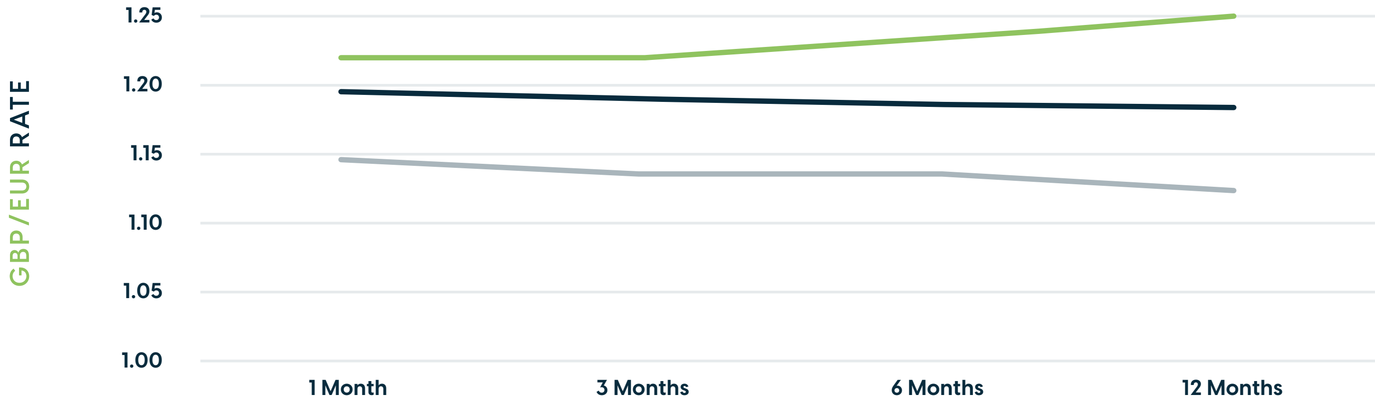
EURUSD	1 Month	3 Months	6 Months	12 Months
High	1.1300	1.1500	1.1500	1.2000
Mean	1.1107	1.1074	1.1130	1.1267
Low	1.0900	1.0500	1.0500	1.0500

GBPUSD FORECASTS



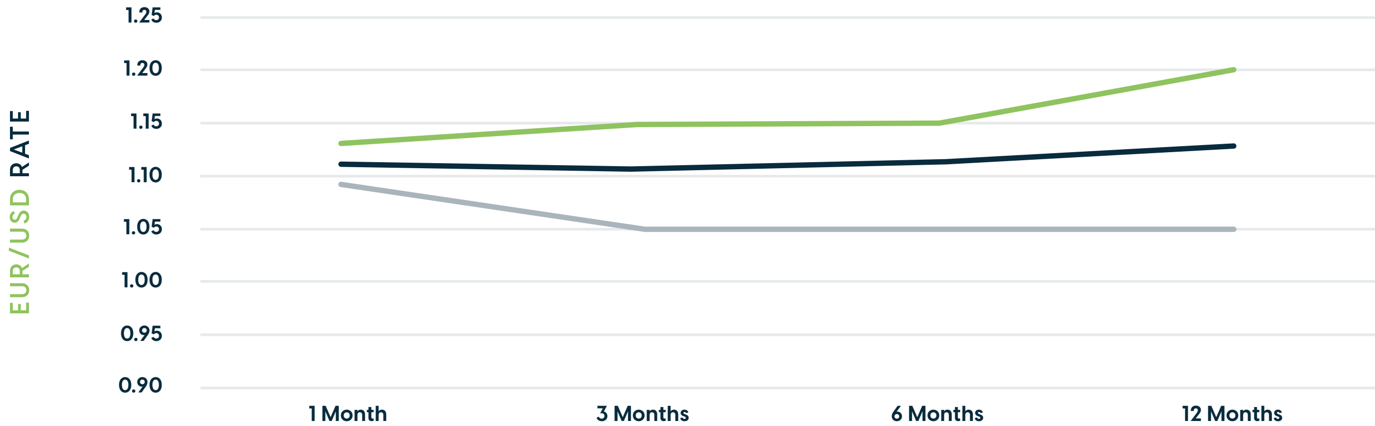
The forecast for **GBPUSD** indicates a moderately wide level between high and low projections over three months, with a potential peak at **1.3600** and a low of **1.2600**. Looking ahead, the six-month and twelve-month forecasts suggests a wider potential range, whilst the mean forecast is cautiously 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 **1.1500** and a low of **1.0500**. 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.

UK

Q3 REVIEW LABOUR'S ELECTION WIN & BOE'S FIRST RATE CUT SINCE 2020

KEY HIGHLIGHTS

GBPUSD

The pound was undermined in August by the BoE's first interest rate cut in over four years, tumbling to a four-week low against the dollar, around 1.272, in the wake of the decision.

The pound soared to a two-and-a-half-year high against the dollar in September after the BoE held interest rates at 5% amid stubborn inflation - breaking through 1.33 for the first time since March 2022.

GBPEUR

The pound hit a two-year high against the euro in September following the BoE's decision to keep rates on hold, breaking through the 1.20 resistance level.

LABOUR'S EXPECTED ELECTION VICTORY PRICED INTO CURRENCY MARKETS

Q3 kicked off with a widely anticipated landslide election victory for the Labour Party, ending 14 years of often tumultuous Conservative government. The result aligned with opinion poll projections, prompting markets to price in a Labour cakewalk win before a vote was cast. Consequently, the pound was muted against most of its peers as investors digested the expected outcome.

BOE'S FIRST INTEREST RATE CUT SINCE 2020 UNDERMINES POUND

In a finely balanced decision, the BoE's Monetary Policy Committee (MPC) voted by a 5-4 majority to lower interest rates to **5% in August from 5.25%** - causing the pound to sink against the dollar. It marked the first cut since March 2020 after the BoE hiked rates to a 16-year high in response to soaring inflation.

The BoE's long-awaited move came after **inflation held at its 2% target for a second consecutive month in June**. However, the central bank's governor Andrew Bailey warned that policymakers needed *"to make sure inflation stays low and be careful not to cut interest rates too quickly or by too much."*

This cautious approach was reflected in the BoE's September policy decision after rate-setters **voted 8-1 to maintain the base rate at 5%** against a backdrop of stubborn price pressures - causing the pound to spike to multi-year highs against the dollar and the euro.

UK

Q4: KEY EVENTS

- **Consumer price index (CPI):** 16 October, 20 November, 18 December - the UK inflation rate is forecast to rise slightly towards the end of 2024, which could support the pound amid dampened rate cut speculation.
- **MPC interest rate decision:** 7 November, 19 December - BoE rate-setters are expected to enact one more interest rate cut this year, which could dent the pound.
- **Autumn Budget:** Wednesday 30 October - tax rises are on the horizon amid Labour Party concerns about the state of government finances. This aggressive fiscal policy could undermine the pound.

Q4 OUTLOOK AUTUMN BUDGET TAX CUTS COULD SOUR POUND SENTIMENT

The UK Autumn Budget is on the horizon when the new government will seek to announce initiatives for growth, alongside activation of plans to balance the books.

Chancellor Rachel Reeves will deliver Labour's first Budget since 2010 on Wednesday 30 October. At the beginning of September, she warned that it would involve *"difficult decisions"* on tax, spending and benefits.

The bleak rhetoric followed figures published in August showing the UK government borrowed £3.1bn in July, more than double the £1.5bn forecast. Pound sentiment subsequently deteriorated amid speculation that the Chancellor could be forced to raise taxes and cut spending in the upcoming budget to plug what Reeves described as a £22bn *"black hole"* in the economy - a drastic move economists think could erode its foundations and undermine the UK's long-term fiscal sustainability.

The government has already ruled out increases to the rates of income tax, national insurance and VAT, making it harder to balance Britain's books. But with the Chancellor's downbeat assessment of the UK economy still ringing in the nation's ears, speculation has been rife about other possible tax rises that could be enacted: capital gains tax, inheritance tax, fuel duty, and pension tax relief.

If, as expected, the budget reflects fiscal responsibility, such as measures to reduce the deficit by controlling public spending, it might boost investor confidence in the UK economy. A credible plan to manage public finances can lead to a stronger pound as it may reduce inflationary pressures and support long-term growth.

However, this positive view might be overshadowed by the government's tax policy. If, as expected, the budget raises taxes on corporations or high earners, it could reduce business confidence, potentially weakening the currency. Higher personal taxes may reduce disposable income and consumer spending, dampening economic activity, which could also be negative for the pound.

The pound is forecast to slide to around 1.29 against the dollar by the end of November, having spiked to 1.33 against the US currency in September, reaching levels not seen since early March 2022. Similarly, the UK currency is forecast to fall almost 2% from a two-year high above 1.20 during the same period.

Q3 REVIEW CHAOTIC US ELECTION RACE WEIGHS ON DOLLAR

The tumultuous US presidential race delivered assassination attempts and President Biden's withdrawal in Q3. The period also marked the end of a long and bumpy road to the Fed's first interest rate cut in more than four years

Following several glaring mistakes, President Joe Biden was facing serious questions about his mental fitness to run for re-election. The discussions on his candidacy were suddenly put on hold on 13 July after his rival for the presidency, Donald Trump survived an assassination - boosting his standing in opinion polls.

With calls from Democrat party members for him to step aside reaching fever pitch, Biden announced on 21 July that he would not seek re-election, before endorsing vice-president Kamala Harris - a decision that weighed on the dollar.

Harris passed the threshold to clinch the Democratic presidential nomination on 2 August after running unopposed in a vote of party delegates. Since taking the election reins from Biden she has built a small lead over Trump in national opinion polls.

A shocking second assassination attempt on Trump on 15 September had little impact on opinion polls.

FEDERAL RESERVE'S FIRST INTEREST RATE CUT IN FOUR YEARS DENTS DOLLAR

Following a two-year fight against stubborn inflation, the Fed cut its benchmark interest rate by 0.5% in September for the first time in more than four years - **leaving the federal funds rate at a range of 4.75% to 5%.** The extent of the move surprised many economists who had expected a light 0.25% touch on the accelerator - causing investors to take flight from the dollar.

While the Fed signalled more reductions would follow, chair Jerome Powell stressed that rates were not on a *"preset"* path, noting that if inflation proved stubborn policymakers could *"dial back policy restraint more slowly"*.

The Fed's new dot plot - a graphic depiction of where officials think the interest rate will end up - shows the predictions average at **rates going down to 4.25% to 4.5%** by the end of the year. This highlights some officials' hesitancy about enacting a succession of large cuts.

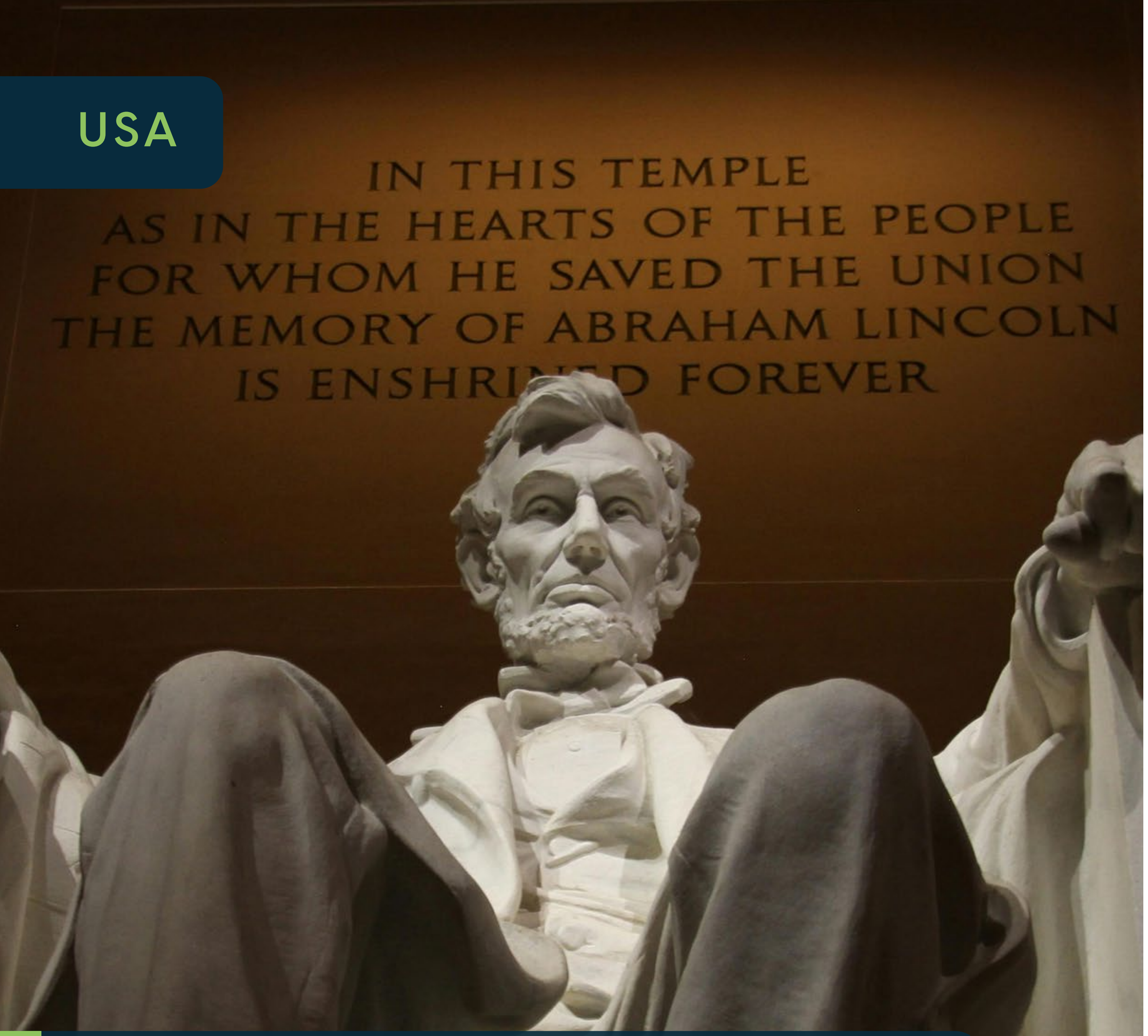
USA

KEY HIGHLIGHTS

USDGBP

The dollar tumbled against the majority of its peers in September after the Fed shocked markets by going big with its first interest rate cut since 2020. For instance, the dollar sunk to a 30-month low versus the pound amid downward pressure on the US currency.

USA



Q4: KEY EVENTS

- **Presidential election:** A Harris victory is seen as neutral for the dollar, while a Trump win is expected to be positive for the US currency.
- **Consumer price index (CPI):** 10 October, 13 November, 11 December - The Fed will be hoping for further evidence that inflation is moving towards its 2% target, after cooling to 2.5% in August which set the stage for its first rate cut in over four years. If price pressures continue to ease in the US, the dollar could firm.
- **Fed interest rate decision:** 6 November, 18 December - The Fed has projected cutting rates by another half-point before the end of the year, with two more policy meetings to do so - a move that could support the dollar.

Q4 OUTLOOK PRESIDENTIAL ELECTION: HOW IT COULD IMPACT THE DOLLAR

US voters head to the polls on 5 November, with Democrat nominee Kamala Harris currently holding a narrow lead over former president and Republican Donald Trump in national opinion polls.

Will Kamala Harris' lead in opinion polls be enough? Currently, it's better than Hilary Clinton's in 2016 - when she won the popular vote but lost the electoral college - but not as big as Joe Biden's in 2020. As we wait with bated breath to discover who will prevail in yet another US election that's too close to call, how might the dollar fare under a Trump or Harris administration?

Fiscal policy

- **Harris (dollar neutral):** Harris' continuation of Bidenomics fiscal policy could be defined by her support for the end of Trump tax cuts.
- **Trump (dollar positive):** In contrast, Trump is banging the drum for lower corporate tax and extending the Trump-era tax cuts past 2025.

Environmental policy

- **Harris (dollar positive):** Harris is expected to expand on Biden-era policies, such as fighting climate change through renewable energy subsidies.
- **Trump (dollar negative):** A Trump administration would support policies that could undermine the dollar, like lower energy prices and renewed fossil fuel production.

Foreign policy

- **Harris (dollar neutral to negative):** Harris' continuation of her predecessor's policies - particularly regarding NATO, Israel, Taiwan and Ukraine - will seek to promote geopolitical stability, potentially resulting in status-quo dollar sentiment.
- **Trump (dollar positive):** An isolationist stance from Trump could stoke global uncertainty, prompting dollar demand. For instance, Ukraine and Taiwan could be left increasingly exposed to the threat posed by Russia and China respectively.

Trade

- **Harris (dollar neutral):** Harris has a history of voting against free trade agreements, aligning her with Biden's policy of targeted protectionism.
- **Trump (dollar neutral to positive):** The extent to which Trump's trade policies impact the dollar depends on the size of his retaliatory Chinese tariffs.

Immigration

- **Harris (dollar neutral):** Harris will reinforce the Democrats pro-immigration stance but with an eye on additional funding for border enforcement.
- **Trump (dollar neutral):** Trump's anti-immigration stance includes a mass deportation policy, which could stifle the domestic labour market.

Q3 REVIEW EURO LOSSES CUSHIONED BY ECB'S EXPECTED SECOND RATE CUT

KEY HIGHLIGHTS

EURUSD

The most traded currency pair in the world touched a 14-month high in August, following an unexpected decline in US inflation that solidified market expectations of a September rate cut by the Fed. This dovish view undermined the dollar, helping the pair to break through the 1.12 resistance level.

The euro recorded its biggest daily fall against the dollar in more than three months when lacklustre PMI data from the bloc stoked rate cut speculation on 23 September.

ECB cut interest rates for a second time in three months amid slowing inflation and increasing pressure on the central bank to bolster the region's flagging economy.

The euro recorded its biggest daily fall against the dollar in more than three months when lacklustre PMI data from the bloc stoked rate cut speculation on 23 September.

Having fired the starting gun on its interest rate-cutting cycle towards the end of Q2, following ten consecutive hikes, the ECB kept rates on hold in July amid sticky services inflation - leaving the euro muted against its peers.

However, with **inflation cooling to within striking distance of the ECB's 2% target in August** and the Eurozone economy skirting a recession, policymakers unanimously decided to **lower rates by a quarter-point to 3.5%** in September. In its forward guidance, the central bank signalled a "declining path" for borrowing costs in the months ahead as inflation slows and economic growth in the bloc falters.

With the single currency flat in the wake of the ECB's widely expected decision, investor attention shifted to how future policy votes will be shaped by the prospect of the bloc sliding into another recession.

EUROZONE

EUROZONE

Q4: KEY EVENTS

- **Consumer price index (CPI):** 17 October, 19 November, 18 December - inflation in the bloc is projected to increase in Q4, which could support the euro if investors dial back rate cut bets
- **ECB interest rate decision:** 17 October, 12 December - the ECB has not set a predetermined rate path, remaining non-committal about whether it will lower rates again at its next policy meeting in October. If the central bank votes to loosen policy again amid the pessimistic economic outlook in the bloc, the euro could be undermined.
- **Eurozone GDP data:** 30 October, 14 November, 6 December - the ECB has warned that economic growth in the Eurozone will be weaker than it had hoped, potentially weighing on the euro.
- **German GDP data:** 30 October, 22 November - the beleaguered German economy is expected to post a further decline in economic growth in the third quarter. If it's confirmed the largest economy has slipped into recession the euro could soften.

Q4 OUTLOOK POTENTIAL EUROZONE RECESSION ALREADY UNDERMINING EURO

Threat of recession could ramp up the pressure to cut interest rates more aggressively

Fresh fears of an economic downturn in the Eurozone have emerged as underwhelming data from across the bloc cloud the economy. This was amplified in September when Eurozone business activity contracted sharply and unexpectedly, signalling deepening troubles in the services and manufacturing sectors.

The malaise is being driven by weak demand and economic challenges in major economies like Germany and France. This widespread weakness in the bloc, combined with easing inflation pressures, paints a picture of a fragile economic landscape for the months ahead, ramping up speculation of further monetary policy easing by the ECB.

The German economy is contending with the strongest economic headwinds, with GDP data showing it contracted by 0.1% in the second quarter and faces further decline in the third quarter. Economists warn that it's on the brink of a technical recession, defined as two consecutive quarters of negative growth.

Waning business sentiment across the bloc is compounding the issue. September's PMI data fuelled fears that the ECB's recent rate cuts may not be enough to avert a prolonged economic downturn. The central bank could come under increasing pressure to implement more aggressive rate cuts to stabilise growth and restore confidence in the economy - a move that could undermine the euro. Some economists predict that further rate reductions could be introduced as early as October.

LUMON
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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

£8bn in total group currency exchanged last year

Backed by Pollen St Capital with over **£4bn** under management

Banking relationships with **several major banks**

HQ in **London** with offices in **Ireland, Spain & Portugal**

Supporting clients **since 2000**

International payment and currency risk management specialist and a trusted partner to over 2,500 businesses across the globe.

At Lumon, we specialise in international payments and currency risk management, offering bespoke FX services for businesses of all sizes and sectors.

Our goal is to reduce the burden of FX, providing secure payments, competitive exchange rates, and exceptional service. With Lumon, currency risk management becomes your strategic advantage, delivering financial stability and helping you maximise profits.


Vic Darvey
Chief Executive Officer


Leigh Bridger
Chief Financial Officer


Darren Bentley
Chief Commerical Officer


Lloyd Eagles
Managing Director Corporate

Who we work with:

CURRENCY RISK MANAGEMENT SPECIALISTS

FX requirements vary based on sector, business size, and global operations.

Our team bring over 20 years of experience in navigating the complexities these factors bring and how they affect FX risk management.

Your dedicated dealer will work with you to develop a tailored hedging strategy that aligns with your business needs and desired level of risk protection. With our flexible solutions, you can secure exchange rates for future transactions, ensuring stability and confidence in your financial planning.

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

1. **Assess the risk**
   We analyse your market exposure, pain points, risk tolerance, and other factors shaping your goals.

2. **Design the strategy**
   We develop a tailored risk management plan to protect your business from currency fluctuations.

3. **Execute the hedge**
   We ensure the safe, timely transfer of funds so you can focus on running your business.

4. **Ongoing monitoring**
   We continuously monitor and adjust your strategy to stay aligned with market changes, keeping your financial stability secure.

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GET IN TOUCH

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