Inflation rates, COVID-19 and managing payments in 2022

The year ahead for our most popular currencies.

www.volopa.com

March 2022

Our FX team talk COVID-19, inflation and what this means for your money in 2022.

The year ahead in FX

Is the global price of energy driving inflation rates? Are we still feeling the impact of COVID-19? Will the interest rates go up again? And if yes, by how much? The future may be unpredictable but staying in the know will arm you with the best tactics to support your business and payment strategies. As the debate continues, the Volopa Team considers what 2022 holds for our most popular currencies and how you should manage your global business payments.

Forecasting currency movement has always been a difficult task, especially in volatile markets. Considering the various tools and resources used by analysts to predict the market, namely economic growth, inflation and interest rates, trade, and capital balances, and employment and wage rates, to name a few; the impact of COVID-19, supply chain demand movements, and current surging inflation rates have undoubtedly made their mark on the market. It is prudent to note that the full extent of the impact won't be fully known for years to come.

The foreign exchange market is focused on three key factors right now: inflation, COVID-19, and of course possible conflict along the Russia and Ukraine borders. These factors are expected to be under the spotlight during 2022, driving central banks' monetary policy decisions.

The market is always looking towards inflation data for clues as to whether central banks will raise or cut interest rates. Higher interest rates boost a currency, while a cut to interest rates will often pull a currency lower. As a result, the consumer price index gauge of inflation is one of the most important data releases for the forex market.

So why is inflation so important right now?

As economies re-opened after the COVID-19 lockdowns and economic activity ramped up, supply chain bottlenecks formed, and energy prices surged. This resulted in consumer prices soaring to their highest levels in 30 years in major economies such as the US, the eurozone, and the UK.

Currency breakdown: The Dollar Strength returns

2021 began with the assumption that market normalisation was a thing of the past with the US dollar expected to underperform. It ended with FED chair Jerome Powell stating the word "transitory" could be retired when discussing inflation, prompting the acceleration in the tapering of bond purchases and the anticipation of rate hikes coming sooner rather than later.

According to the CME Fedwatch, if the US economy continues to boom, and inflation continues to grow, the first interest rate hike will peak in Q1 or Q2 (Source: Reuters.com). Lawrence Kaplin, Chief Market Analyst at Equals Money, says "The US economy will continue to outperform other developed nations by some margin" (Source: Thnenationalnews.com).

Similarly, the latest from the Fed is that we'll expect US interest rates to rise in March 2022. Another recent factor is the Russia / Ukraine conflict; sanctions and restrictions in oil supply could rapidly inflate the price of oil creating even further inflation. This certainly could affect Fed decisions on interest rate hikes (Source: CNN).

However, despite the dollar's surprising performance in 2021, there are several factors that could soften the dollar later in the year. The first is a possible slowdown in inflation, from a reduction in energy prices and the easing of pressures on the supply chain, which may lead to the Fed reneging on its tightening of policy. The second is if the Democrats lose both chambers of Congress at the midterm elections in November 2022. Should this occur, it could lead to a significant reduction in US government spending (Source: ActionForex.com).

(Source: www.tradingview.com)

Currency breakdown: Euro hits turbulence?

Unlike the US, the European Central Bank (ECB) has been more dovish compared to the Fed, insisting that the rise in inflation is temporary. One of the reasons for the ECB's stance is due to the fact that unemployment is higher in the EU when compared to the US or the UK which means less inflationary pressure from wage rises.

This key figure has meant that the ECB has had to take a dovish and looser monetary policy approach compared to its British and American counterparts who in turn are tightening their monetary policy causing underperformance in the Euro.

"We don't believe the ECB is bracing for sudden acceleration of tightening. We still see the Fed as being on track to move well ahead of the ECB, providing support for the dollar," said Mark Haefele, chief investment officer at UBS Global Wealth Management (Source: Reuters). As a result, the European Central Bank will almost certainly continue asset purchases through 2022 and is highly unlikely to raise rates during the year.

(Source: www.tradingview.com)

£

Currency breakdown: Sterling Sentiment

While the pound lost ground to the dollar in 2021, it did however outperform both the Euro and Yen. The two key factors causing this was the UK economy's persistence despite the pressures of COVID-19 and the Bank of England (BoE) tightening its monetary policy in a bid to reduce inflation rates.

The performance of the pound moving forward may be linked to global risk sentiment. According to analysts, "the global picture is very important for Sterling, especially when stock markets suffer, risk sentiment is low, and investors are usually spooked." (Source: upfx.co.uk).

Continued strength in the stock market could see resilience in the pound, however both monetary and fiscal policy will have less impact compared to previous years and while asset valuations are so high, this could provide an erratic scenario for the pound in the near term.

ING analysts forecast the sterling to rise in early 2022 against the dollar with a slow and steady drop later in the year. They note "it is not a popular view, but we think GBP can withstand the strong dollar onslaught better than some. We doubt Cable has to trade substantially under 1.30 and expect the early BoE tightening to provide GBP with a cushion." (Source: Think.ing.com)

(Source: www.tradingview.com)

Managing global payments in 2022

With the market moving constantly, businesses can make significant losses when moving money internationally. Whether your company is small or large, being smart about exchange rates and other fees could make all the difference to your bottom line. Consider these 6 ways to manage your global payments in 2022 and make your money go further.

1. Planning for risk

Staying abreast of market fluctuations and possible factors that may impact it will give you an edge. Global current affairs, COVID-19, inflation rates, and national political changes can affect the market climate and future transaction rates. If you are reading this guide, you're already a step ahead.

2. Doing your research

To handle foreign payments, some countries demand additional information. Check the precise rules for the country to which you're sending money. It's always a good idea to double-check the fees associated with your transfer and budget accordingly.

3. Forecasting can make all the difference

Take the time to figure out how much money your company will spend over the next 12 months and when those payments will be made. Don't forget to familiarise yourself with your contract terms.

4. Getting the timing right

It can be useful to figure out which periods of the day or week are more convenient for international transfers and which times should be avoided if at all feasible.

Profitability can rise or fall during certain periods, depending on daily, weekly, and monthly patterns and trends. For example, market volumes and prices might fluctuate dramatically first thing in the morning, so it's probably best to avoid foreign exchange transactions during these unpredictable times.

5. Looking beyond your bank

Banks, who handle the vast bulk of overseas payments, rake in an estimated £4 billion in hidden fees from UK small businesses each year (Source: thetimes.co.uk), benefitting from offering poor currency rates. When utilising a bank to make a transfer, there may be a lack of price transparency, which means you may end up accepting whatever exchange rate they offer. Working with FX professionals and dedicated money transfer services like Volopa can provide you with transparent pricing, competitive rates, and a more cost-efficient transfer.

6. Paying with confidence

You can make quick and easy international payments with confidence using a trusted provider like Volopa. You'll get real-time, competitive currency rates that aren't inflated.

Make your money go further with Volopa

With Volopa you can make payments from the UK in 38 Currencies across 180 Countries. Whether you're paying salaries, vendors, importing and exporting, or just moving currency from one account to another, our payment platform enables you to:

- Gain access to our easy-to-use self-service payment platform to manage your payments
- Make multi-currency payments globally from the UK
- View your payment history and transaction details in real time through your dedicated dashboard
- Securely store your recipient details for future use and view payments history

If you're looking to exchange currency or wish to send money overseas, talk to one of the Volopa team and we'll be more than happy to assist.

Contact our experts

If you're looking to exchange currency or wish to send money overseas, talk to one of the Volopa team and we'll be more than happy to assist.

+44 (0)2035 192 813

www.volopa.com

business@volopa.com

Book a Demo