



CURRENCY MATTERS

Tom Barclay of CLA Foreign Exchange Services reckons the euro is in for a tough 2010

AS WE head towards the spring there are foreign currency matters to be considered by the agricultural community. You may be starting to consider the best course of action for this year's Single Farm Payment (SFP) or as a businessman how to budget for the coming year when setting the levels for your import costs.

The pound is as unpredictable as ever and it is therefore a tall order to predict where it will go over the next six to 12 months. However, there are a number of factors, both economical and political, that are worth considering and will determine the levels we see.

The consensus among the experts is that the euro is in for a tough 2010, which is good news for importers, but not so welcome for recipients of the SFP. There is a group of European member states whose credit rating is under stringent review and, for fans of acronyms, they are referred to as PIGS (Portugal, Italy, Greece and Spain).

It is a requirement of the Maastricht Treaty that the budget deficit of a member state of the European Union does not exceed three percent. Greece in particular has been in the spotlight since it emerged that the Greek Government was somewhat economical with the truth in regard to its budget deficit when it entered the euro in 2000. At the time the Greeks reported their deficit at two percent but it has been discovered that it was closer to five percent.

It has already been downgraded once and is likely to be further downgraded. Portugal, Italy and Spain have been warned that their ratings too are under review, with Ireland already downgraded. Britain currently has a budget deficit of more than 12 percent so is also in the firing line and will not be in a position to join the euro any time soon.

In the UK, the big economic issue that could weaken the pound is whether the Government will decide to extend its quantitative easing (QE) program and increase it above the £200billion mark.

QE is a form of monetary policy employed to stimulate an economy by increasing the overall money supply available to lenders, which combined with a reduced cost of borrowing through low interest rates, is designed to stimulate and therefore resuscitate the economy.

This might explain the increase in mortgage approvals in the UK towards the end of 2009. There is a chance that the Government will further increase QE this month as in November 2009 they extended the program by a mere £25billion instead of the £50billion that was forecast, which means they still have £25billion at their disposal.

The biggest factor of all is the General Election scheduled for later this spring and there are some extreme opinions on the effects it could have on the pound. If Labour wins, economists have suggested the pound could be trading below parity against the euro and return to around 1.30 against the US dollar. On the other hand, should the Conservatives be voted in, the economists are predicting a strengthening of the pound to around 1.20 against the euro and around 1.80 against the US dollar. The run-up to the election could also weaken the pound's position as the markets dislike uncertainty.

As CLA President William Worsley said: "Landowners should not underestimate the importance of anticipating currency fluctuations and making the most of their European payments."

With this firmly in mind, contact the CLA Foreign Exchange Service, which has been established to provide members with professional guidance on any foreign currency issues that may arise, to provide an element of certainty in these uncertain times. ■

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FOR MORE INFORMATION:

factfile

To find out more please contact the agriculture team

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