Forming an Opinion Which Way Your Chosen Currency Might Go

It is known that currencies react to a series of events such as inflation, interest rates, the state of the economy, and so forth. Because of this, it is vital to keep evaluating the various data, in order to form an opinion of the direction the currency of your choice might be heading.

Let us look at inflation and what it actually means. It is not about a particular model of a boat or a motorcycle, or certain services costing more money, which could be due to business enterprise success or failure, but about a widespread increase in prices throughout the country.

The rate of the inflation is based on a calculation of the average price change right across the economy. This is usually taken over a period of a year, hence the term annual inflation.

If there is an annual inflation rate for a particular month, say March this year of two per cent, it would mean that the prices in general were 2 per cent higher this March, than in the same month last year. Therefore, a blend of usually purchased items costing GBP100 last March, would be costing GBP102 this March.

To get the right reading, prices are taken all over the country in many sectors like the supermarkets, big stores, travel and insurance firms, etc.

There are other issues which set the level of inflation in the economy, but the fundamental causes of inflation have to do with the extent of demand in the economy, and can be narrowed down to how much cash can be spent in relation to what can be produced.

When demand shoots up above what can normally be produced in normal circumstances, this upward pressure creates a rise in costs and prices. When the demand is down, this creates a downward pressure in costs and prices. To keep inflation controlled, it is required to keep a balance between the demand and output situation. When you have an excessive demand to the supply position, you have a formula to generate an inflation climate. This is the reason for stability as a goal.

Lowering interest rates may well see a rise in output, but only for a limited period. If both demand and output have been strongly increased and then suddenly fall, it is called boom and bust.

It is also useful to keep an eye on the extent of the employment and unemployment figures. These can indicate the size of the economic movement as well as the weight of labour demand, increases of wages, and of prices.

Do not forget to take notice of the (CPI) Consumer Price Index which is an important measure of inflation.

Watch also the balance of trade situation. A trade surplus is a positive balance of trade, namely the exports are bigger than the imports, whereas a trade deficit is a negative balance of trade with imports being larger than exports.

There are a number of other points that can be looked into of course, but the main ones are important to keep in mind at all times.

A number of people follow the charts, and keep an eye on what the position was year after year.

There is no known magic formula as such, to positively determine the direction of any currency pair, but being informed as much as possible, goes a long way to narrow the odds against you.

About the Author

Paul Dubsky is director of Foreign Currency Exchange Services Ltd. The company is focused on being able to offer really friendly currency exchange rates. We believe we are the only Foreign Currency Exchange company which offers special rates to Senior Citizens.

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