SMART CURRENCY FINTECH

THE PRICE OF UNCERTAINTY

QUARTERLY FORECAST OCTOBER–DECEMBER 2026



WILL THE POUND BE STUNG BY A HUGE BUDGET?

CAN CENTRAL BANKS KEEP A LID ON INFLATION?

WHY AI AND EL NIÑO POSE NEW THREATS

THE EIGHT DAYS THAT COULD DEFINE 2026

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LATER THAN EVER

Travel firms are reporting positive booking signals heading into the crucial autumn season. One survey found six in every ten businesses are ahead on bookings for 2027, but at the same time, barely over half of respondents thought they would turn a profit.

One possible reason for this discrepancy is that customers are keeping their options open longer. According to TTG and Jet2, the summer trading period was marked by a widespread creep towards last-minute holidays, with bookings made within a week of travel up by around 20% year-on-year. Preliminary industry data suggests this trend could continue into winter.

Calculating the actual value of those bookings (and therefore the ultimate margin) can pose something of a headache. A holiday priced today may involve supplier payments many months from now and, as the rest of this report will show, even routine movements in exchange rates can completely wipe out profits on any given route. A greater share of trips booked close to departure date provides a real profit opportunity, but only for businesses with clarity when it comes to the risk that currency movements wipe out their room for manoeuvre.

A SCORCHING SUMMER

This year's warm summer weather gave the domestic travel landscape a significant boost after months of uncertainty. Consumer spending on travel increased by 3.1% in August, the first month-on-month increase since the start of the Iran war in February. Travel agents reported strong growth and airline operators benefitted from a brief respite in the price of oil colliding with robust appetite for holidays.

Interestingly, the 'heat dome' that squatted over much of Western Europe for large parts of the summer may have contributed to greater flexibility among ideal destinations. Barclays research cited by TTG found 36% of consumers planned a UK staycation compared with 33% favouring an overseas holiday.



Demand for both international and domestic travel remained largely unaffected by the sweltering temperatures. Operators and travel agents will no doubt be pleased by continued signals of strong intent, particularly as this kind of summer seems likely to become more common in the years ahead.

ATC OUTAGES HIT CASHFLOW

Even the most well-oiled travel operations can be derailed by events entirely outside any operator's control. Last month provided ample evidence of just how quickly things can go south.

In September, a software defect in the UK's air traffic control system led to the delay, cancellation or diversion more than 2,000 flights. The disruption took more than two days to clear and affected hundreds of thousands of passengers. Less than two weeks later, it happened again. A separate technical issue disrupted services across Scotland, Northern Ireland and northern England. Industry reports estimated around 200 flights were cancelled and 1,500 delayed, affecting as many as 30,000 passengers.

ABTA said the incidents created significant additional work and costs for tour operators and travel agents and has called for the government to consider compensation. Such is the complexity of travel that similar disruptions are inevitable. The question for businesses heading into the winter is therefore not whether every disruption can be avoided, but whether cashflow, staffing and contingency plans are robust enough to absorb the cost when the unexpected does happen.

NOTE FROM THE MANAGING DIRECTOR

2026 has been complicated. Iran and energy have been the main concerns, but there is also growing anxiety that AI – the technology expected to bring about a revolution on the scale of the internet or perhaps even the steam engine – might prove uncontrollable. The back-to-school tremors in bond markets suggest there will be more turmoil in the months ahead, and that's before we come to the autumn Budget.

Whether it's the economy or politics, the ground continues to shift below our feet. Indeed, it is increasingly hard to predict what will happen over the course of one afternoon, let alone a week into the future.

Don't believe us? Well, the Federal Reserve has stopped signposting where it thinks interest rates might be headed. JPMorgan has likewise withdrawn its oil price forecast. In both cases, the justification was uncertainty. Even the world's leading economists can't look into the future with any degree of confidence.

The good news is that risk management isn't about certainty. The most important thing you can do to safeguard your business is to recognise the futility of second-guessing events and act instead to mitigate the impact of a range of outcomes.

Smart Currency Business is focused on reducing the risks to your profit margins and cashflow. With more than 20 years of treasury experience, our comprehensive solutions and cutting-edge technology remove the guesswork around currency management and facilitate long-term growth.



From all the team, we wish you and your business a successful end to 2026 and a very happy new year.

Alex Bennett, Managing Director, Smart Currency Fintech

WHERE WILL RATES BE BY JANUARY 2027?

Rate predictions for the end of the fourth quarter of 2026 and the possible impact on your budget. If you were changing £1 million for USD, the predictions carry a disparity of $80,000 and for EUR a disparity of €40,000.

CURRENCY PAIRING	MIN. RATE	MAX. RATE	AMOUNT EXCHANGED	MIN-MAX VARIANCE
GBP/USD	1.28	1.36	£1 million	$80,000
GBP/EUR	1.14	1.18	£1 million	€40,000
EUR/USD	1.13	1.17	€1 million	$40,000

Please note, these are the maximum and minimum rates forecast by major banks.
How would your cashflow and profits be affected should the worse scenario play out?

HOW DID Q3 FORECASTS FARE AGAINST REALITY?

Our last quarterly forecast arrived at a time of optimism. For a fleeting moment, it seemed the ceasefire between the United States and Iran might hold and the energy crisis would end before prices percolated through to consumers. The AI trade was in full flight and borrowing costs remained manageable.

The conflict has since changed the trajectory of the global economy. Stung by several false dawns, bond investors now seem to have accepted inflation will be higher for longer, while higher-risk currencies have seen significant outflows. Anyone left guessing where an exchange rate would move (a bad approach at the best of times) was left with egg on their face.

GBP/USD

The summer months proved to be a repeat of spring for the pound and the US dollar. As in the previous quarter, sterling shrugged off a sluggish start only to see those gains disappear on a wave of energy and interest rate speculation.

A hawkish Federal Reserve helped the US dollar recover from a tough start to the quarter. Indeed, were it not for Kevin Warsh's about-face on interest rates, things might have become rather messy for the greenback. For now, buyers have shrugged off longstanding concerns and embraced the chaos of a red-hot economy and AI FOMO.

GBP/EUR

The past three months have been the best this year for the pound-to-euro rate. Our last report showed a tight six-cent range for this pair. As it turned out, sterling's upside remained hamstrung by structural issues, yet it still never dipped below the 1.16 level it began the quarter at.

That was despite another rate hike from the European Central Bank and more caution from policymakers at the Bank of England. The British economy delivered some tailwinds as the summer heatwaves and World Cup events boosted retail sales. Still, it was inflation and a bubbling eurozone debt crisis that dictated the direction.

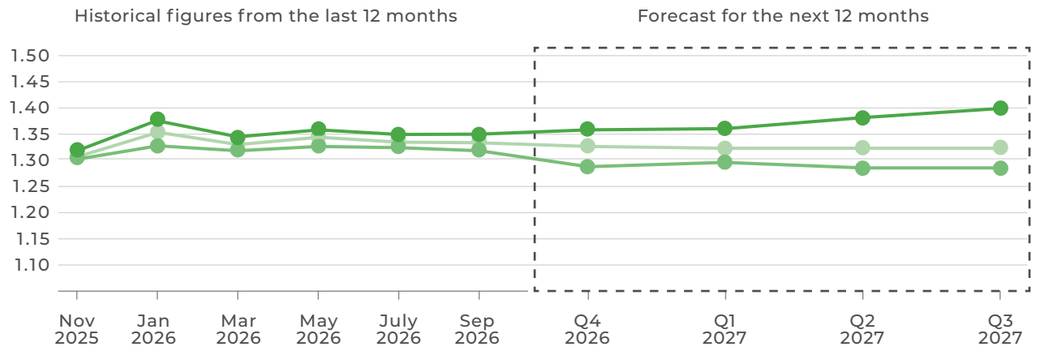
EUR/USD

The euro entered July close to its weakest in over a year against the US dollar. Three months ago, several banks predicted it could climb close to 1.20 over the course of the quarter, but that proved wide of the mark. As it happened, the euro only briefly rose above 1.16 and spent most of the time under pressure.

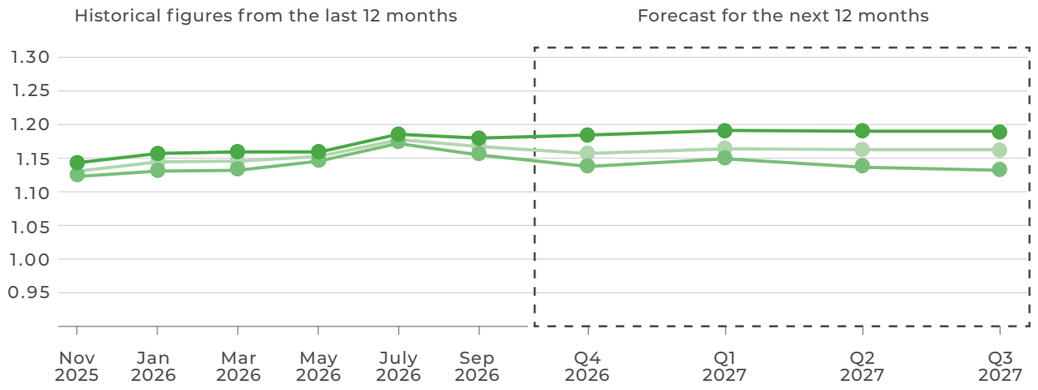
The chasm between the ECB and the Fed's policy rates proved too big to scale, as did the eurozone's exposure to energy prices. In the absence of meaningful positive drivers, the euro found itself weighed down by unflattering economic indicators and a growing debt crunch.

See the calendar on pages 6–7 for the most important, potentially market-moving events this quarter.

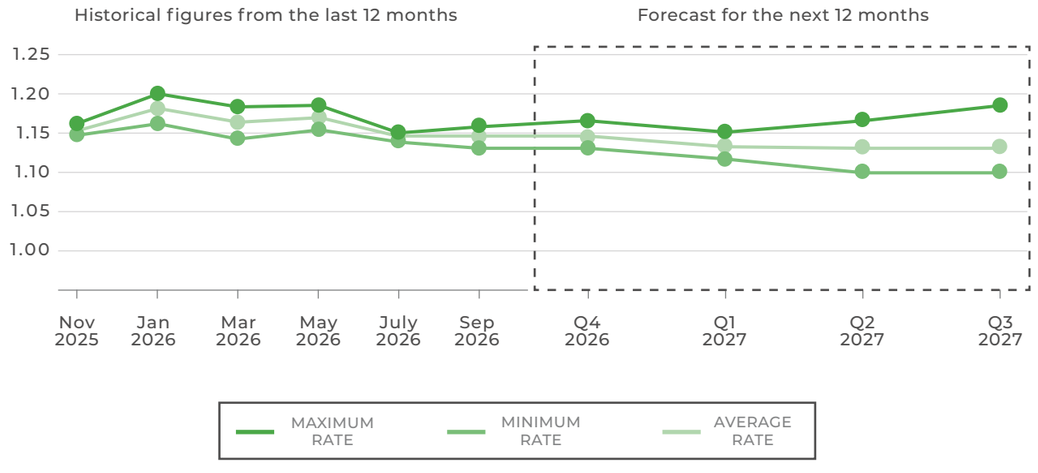
GBP/USD



GBP/EUR



EUR/USD



SOURCE: BLOOMBERG. ACCURATE AS OF 1ST OCTOBER 2026

SUMMARY

For the third quarter in a row, the global economy remained in thrall to a 25-mile-wide stretch of water in the Gulf. Energy prices have had a dramatic impact on the inflation outlook, currency trends and almost everything in between. Even if the war were to end tomorrow, there is now a realisation that it would take some time for supply and prices to normalise.

One of the biggest surprises of 2026 has been the relative stability in currency markets. As equities, commodities, bonds and credit whipsawed on a weekly basis, sterling has ranged by just over six cents against the US dollar and by barely four cents against the euro since January.

Yet there is an eerie pre-storm feeling taking hold. Look everywhere and the economic fundamentals feel out of step with market dynamics. There is a growing sense that somewhere, an overheated market will pop and take others with it. Where will the next black swan come from? Nobody can say, but it might not be far away.

BONDS GO BANANAS

A cloud of forces drove the US government's borrowing costs higher in September, a trend that swiftly snowballed into a global sell-off. While energy played a key role in this, it was interesting to note the scale of the losses in highly indebted economies with ageing populations (notably the US, UK, Japan and parts of Europe), where there is a growing angst that the current fiscal path is unsustainable.

Economists might counter with the technical argument that higher rates better reflect the inflation outlook and productivity gains. Whether justified or not, the key questions are how much the punishing cost of borrowing drags on fiscal support, and whether the highest US Treasury yields since the start of the millennium will put a dampener on debt-fuelled AI growth.

MEMORIES OF 2022

Much like after Russia's invasion of Ukraine, Europe faces the prospect of a winter dogged by punitive energy costs. As of the start of October, gas storage facilities were only around 70% full, compared with levels of more than 80% over the past five years. Europe has learned some lessons, but there are still gaps in its supply chain.

Wholesale natural gas prices have shot up by more than 140% compared to a year ago, leading ministers to urge member states to consider implementing energy curtailments ahead of the cold weather. To top it off, the El Niño-Southern Oscillation (more on that later) is expected to bring about an unusually stormy season.

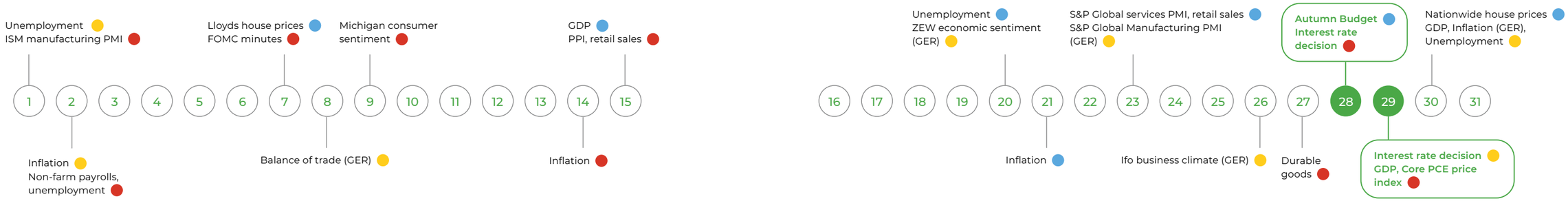
> "In my entire time of public service, I've never had an industry or a CEO ask for regulation and oversight."
>
> US representative Don Beyer

MARKET-MOVING EVENTS THIS QUARTER

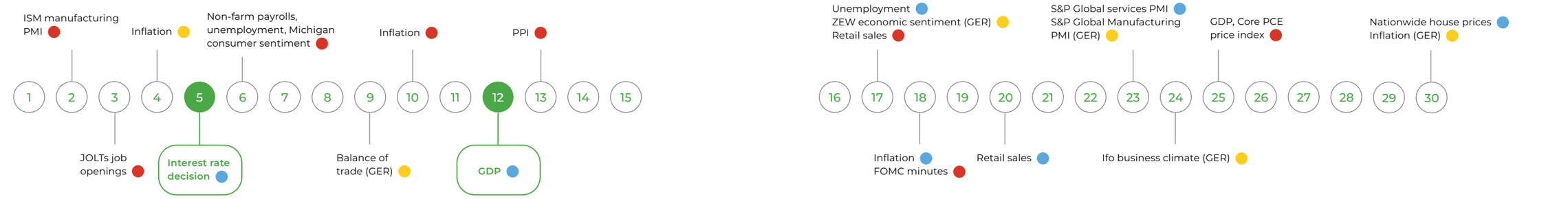
KEY ECONOMIC EVENTS Q4

UK USA EUR

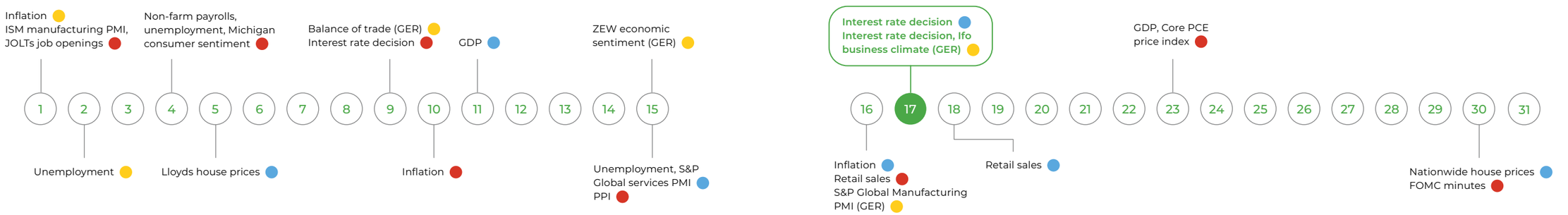
OCTOBER



NOVEMBER



DECEMBER



UK ECONOMY

In a year when many experts predicted it would struggle, the UK's economic record has been quietly impressive. Strong growth alongside fewer permanent workers suggests that productivity gains may finally be kicking in, particularly for the crucial services segment.

Until now, inflation has held reasonably stable. The Bank of England highlighted the apparent lack of pass-through from oil prices to other goods and services at its latest meeting. But with the energy price cap now at its highest in more than two years, the consensus view is that this will not hold for long.

Britain still approaches a crunch Budget with an element of gloom. There is no hiding the fact that John Healey will have to make tough choices. The Treasury is reportedly considering almost halving the fiscal headroom to £14bn, evidence of just how far it might go to avoid cutting spending or raising taxes. The aim of the game is to keep the bond barbarians away from the gates – easier said than done given the straitjacket of electoral pledges and borrowing costs.

BANK'S SLOW PIVOT

The Bank of England provided the clearest indication yet that its streak of six consecutive holds will soon be at an end. The we-really-mean-it-this-time framing reflected a strengthening economy and the length of the energy crisis, which has now lasted long enough to risk the kind of secondary effects that can be so difficult to contain.

Threadneedle Street's belated decision to curb the sale of long-dated government debt sparked a bond rally, but there was no mistaking the message that the path for interest rates and yields is up should current conditions hold. Markets are currently pricing in 100bps (a full percentage point) of rate hikes over the next year.



BACK TO REALITY

Andy Burnham's honeymoon period as prime minister endured just a few short weeks. The long build-up to the Budget began as soon as parliament returned from the summer recess. Although the sums in the initial policy blitz were modest, the Treasury is far from flush and real change to pensions, Europe and the care system will have to wait until after the next election.

Like his predecessor, Burnham has the unenviable task of grappling with forces largely out of his control. The single biggest improvement would come with a swift end to the energy crisis and a period of geopolitical stability. The prime minister doesn't have long to deliver and must also contend with increasingly confident calls for self-determination from Wales, Scotland and Northern Ireland.

The threat from the right hasn't gone, although it did lose some steam over the summer months. Reform UK's Nigel Farage fought through an excruciating by-election (his main opponent an intergalactic bin) only to return to parliament under the cloud of a donations scandal. Pollsters have Reform sliding, prompting rumours of a general election, which Labour insiders swiftly dismissed.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	3.75%	Sep 26
Inflation rate	3.1%	Aug 26
Unemployment rate	4.9%	Jul 26
GDP growth rate	0.5%	Q2 26

EU ECONOMY

Even with the threat of energy shortages looming over the continent, the past three months showed signs of a robust labour market and recovering survey data. Fiscal stimulus from the German government has become something of a white whale, but hopes remain it will prove transformational when it does arrive.

Inflation has shot up worryingly quickly in member states like Italy and Spain, albeit from a lower starting point than elsewhere. Consumer confidence studies consistently highlighted the sheer scale of uncertainty around future conditions.

The bloc has also not been immune from the bond crisis. In France, where the debt-to-GDP ratio is expected to breach 120% next year, figures on the far left have promised to throw bond coupons ‘into the fire’. While that isn’t close to a viable solution, it does speak to a growing awareness that persistent fiscal deficits are making palatable escape routes few and far between.

HIKES ON PAUSE

Last month’s quarter-point rate hike was about as hawkish as they come, not just because of what was said, but also the accompanying forecasts, which showed inflation rising as output shrank. Currency markets had been pricing in roughly a two-thirds chance of another hike before the end of the year, although this all changed after a dramatic start to October.

Anxiety around the French government’s spending sent the spread (i.e. the gap) between French bonds and the German counterparts to their highest level since the eurozone debt crisis. For the ECB, there is a very real risk that a fiscal meltdown in France makes higher rates unjustifiable despite sharpening inflationary forces.



DISASTER FOR MERZ

German chancellor Friedrich Merz admitted the Alternative für Deutschland’s (AfD) victory in Saxony-Anhalt was ‘an election result we cannot simply move past’. Two other defeats in quick succession provided an unfortunately literal example of just how right he was.

While the beleaguered Merz has pledged to stay the course, the momentum of right-wing parties in France and in Spain suggests this trend extends far beyond Germany. Centrist voices might cling to the recent victory in Sweden, yet much like on these isles, polarisation has become the norm on the continent.

All of this comes at an important time for the European Union, currently locked in negotiations for its next seven-year budget. The proposed framework promises more agile funding that allows Europe to respond to security threats quickly, while also setting aside significant pots for climate initiatives and agriculture. Something of a siege mentality is building amid warnings that Russia is preparing to test a Nato member.

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	2.5%	Sep 26
Inflation rate	3.8%	Sep 26
Unemployment rate	6.4%	Aug 26
GDP growth rate	0.6%	Q2 26

US ECONOMY

AI continues to do the heavy lifting for the American economy. Capital expenditure on infrastructure and research (combined with the deluge of foreign investment) has contributed between two-thirds and three-quarters of total nominal GDP growth in 2026, a huge number however you slice it. Meanwhile, business activity increased at its fastest pace in five years in September.

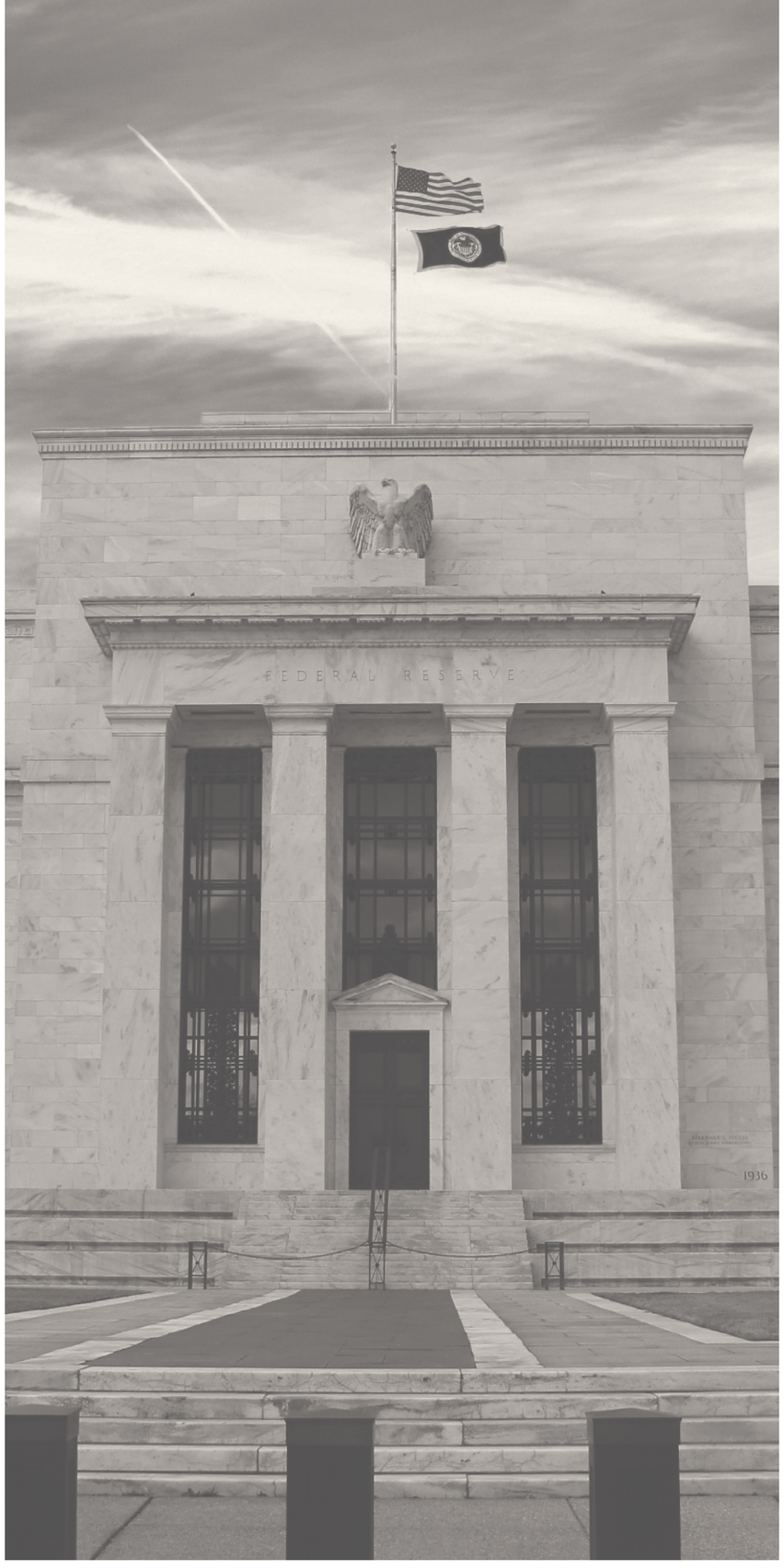
The problem is the persistent bifurcation between the manic output of the tech hyper scalers and the economic centre. Consumer spending and confidence are by no means poor, but they are notably muted in comparison. Affordability is the main worry, even if the headline growth figures would have you believe these are boom times.

The threat of more inflation remains a drag on the economy, as does the somewhat erratic trade policy pursued by the White House. High borrowing costs have also pushed the average mortgage rate above 7%, meaning many Americans aren't feeling the benefits implied by the headline growth figures.

FED FLEXES MUSCLES

July started poorly for Kevin Warsh and the Federal Reserve, a disastrous press conference sending mixed messages about the Fed's approach to its price stability mandate. Warsh would redeem himself at Jackson Hole, but fresh problems arrived on the back of the Treasury's misjudged game of chicken with the bond market.

The positive to take from the last few weeks has been the Fed's steadfast commitment to containing prices even under pressure from the White House. If you think back to spring, this was one of the main fears about Warsh's appointment, so we can consider that box checked by the new chair.



IRAN OVERSHADOWS MIDTERMS

Does Donald Trump care about the midterms? That was the question America's political class asked after a testing summer for Republicans, one in which the president's maximalist grandstanding collided with the more material concerns of a weary public.

Iran casts a long shadow over the union. The president who campaigned on the promise of 'no new wars' is now almost eight months into what was framed as a short conflict. Gas prices are high, data centres and wealth inequality are proving divisive and there was even a new trade war with Canada with outsized implications for tight Senate races in Michigan and Maine. In short, all the variables typically required for success at the ballot box aren't there.

A last-ditch campaign event in Texas did recover some momentum, even if there was a hint of desperation about it. President Trump is now wrestling with the only question that might reverse his fortunes, and the same one he castigates his predecessors for exposing themselves to: how does the war even end?

ECONOMIC INDICATOR	DATA	REFERENCE
Interest rate	4.0%	Sep 26
Inflation rate	3.4%	Aug 26
Unemployment rate	4.2%	Sep 26
GDP growth rate	2.2%*	Q2 26

* Annualised

KEY DATES AND EVENTS

Currency fluctuations are always unpredictable, but the biggest volatility tends to occur around significant economic and political events. We have selected three dates across the next quarter when markets might be even more overheated than usual.



28 OCTOBER
AUTUMN BUDGET

The John Healey era begins in earnest on the final Wednesday of October. Downing Street admitted that this would be a 'difficult' Budget, but the real question is just how far spending can stretch without straining public finances. We know that measures to ease the cost of living will be high up the priority list, along with plans to bring more utilities under public control. There are probably more than half a dozen departments jostling for funding, but it's debt servicing that has come to define the present economic moment. About £1 in every £12 the government spends goes to paying interest on debt, greater than the sum spent on defence, transport and housing combined. Without tough discussions around tax and welfare, it may take some time to break this cycle.



3 NOVEMBER
UNITED STATES MIDTERM ELECTIONS

Both parties see how much is at stake in the 2026 midterm elections. The Republicans know that ceding control of both chambers could render the president a lame duck for the rest of his term (assuming he doesn't find a way to run a third time). Democrats know that they can ill afford a slip up, particularly as the mood among their faithful remains poisonous after the 2024 debacle and their difficulties mounting a coherent opposition to Trump. Both are framing this as an election where democracy is on the line. The results, as well as the reaction, will be a huge test for a strained political system.



5 NOVEMBER
BANK OF ENGLAND INTEREST RATE DECISION

Traders expect the Bank of England to raise interest rates at least once this quarter. Andrew Bailey and his chums have had the good fortune of watching from the sidelines as inflation rips across the world, but that position may become harder to maintain. Last month, just three of the Monetary Policy Committee's nine members voted for a rate rise, despite a consensus that the risks are heavily skewed towards the upside. Given the path of energy prices, markets will be watching closely to see whether the Bank follows the budget with a quarter-point rate rise, or indeed signals further action down the road.

IN BRIEF: JULY–SEPTEMBER 2026

GBP/USD RATES 2026		
MONTH	HIGH	LOW
July	1.35	1.33
August	1.36	1.34
September	1.35	1.32
Q3 average	1.34	

Over the past 12 months the highest rate for GBP/USD has been 1.38 while the lowest has been 1.30.

GBP/EUR RATES 2026		
MONTH	HIGH	LOW
July	1.18	1.17
August	1.17	1.17
September	1.17	1.16
Q3 average	1.17	

Over the past 12 months the highest rate for GBP/EUR has been 1.18 while the lowest has been 1.13.

EUR/USD RATES 2026		
MONTH	HIGH	LOW
July	1.15	1.14
August	1.17	1.15
September	1.16	1.13
Q3 average	1.15	

Over the past 12 months the highest rate for EUR/USD has been 1.20 while the lowest has been 1.14

MAJOR BANK CURRENCY FORECASTS

MAJOR BANK FORECASTS - GBP/USD				
INSTITUTE	Q4 2026	Q1 2027	Q2 2027	Q3 2027
Barclays	1.31	1.31	1.32	1.32
BNP Paribas	1.34	1.36	1.38	1.40
Citi	1.35	1.34	1.33	1.28
Investec	1.36	1.36	1.36	1.35
JPMorgan Chase	1.28	1.29	1.28	1.28
Santander	1.30	1.31	1.32	1.32
Wells Fargo	1.33	1.30	1.29	1.31
Median	1.33	1.31	1.32	1.32
Minimum	1.28	1.29	1.28	1.28
Maximum	1.36	1.36	1.38	1.40

MAJOR BANK FORECASTS - EUR/USD				
INSTITUTE	Q4 2026	Q1 2027	Q2 2027	Q3 2027
Barclays	1.14	1.13	1.12	1.12
BNP Paribas	1.14	1.14	1.16	1.18
Citi	1.16	1.15	1.14	1.13
Investec	1.17	1.15	1.17	1.17
JPMorgan Chase	1.13	1.12	1.10	1.10
Santander	1.13	1.12	1.11	1.13
Wells Fargo	1.16	1.13	1.13	1.15
Median	1.14	1.13	1.13	1.13
Minimum	1.13	1.12	1.10	1.10
Maximum	1.17	1.15	1.17	1.18

MAJOR BANK FORECASTS - GBP/EUR				
INSTITUTE	Q4 2026	Q1 2027	Q2 2027	Q3 2027
Barclays	1.15	1.16	1.18	1.18
BNP Paribas	1.18	1.19	1.19	1.19
Citi	1.16	1.16	1.16	1.13
Investec	1.16	1.18	1.16	1.15
JPMorgan Chase	1.14	1.15	1.16	1.16
Santander	1.15	1.18	1.19	1.16
Wells Fargo	1.15	1.15	1.14	1.14
Median	1.15	1.16	1.16	1.16
Minimum	1.14	1.15	1.14	1.13
Maximum	1.18	1.19	1.19	1.19

SOURCE: BLOOMBERG. WE TOOK A SELECTION OF FORECASTS AND ROUNDED TO TWO DECIMAL PLACES. MINIMUM AND MAXIMUM COLUMNS SHOW THE EXTREMES. ACCURATE AS OF 1ST OCTOBER 2026.

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2. Get expert advice and support from tailored to your needs.

3. Protect your budget with round-the-clock care and across hundreds of currency combinations.

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