IMPACT OF INFLATION

ON YOUR INCOME AND SAVINGS



zenfinex

DISCLAIMER

Please note the information and trade ideas contained within this eBook is for educational purposes only. All effort has been executed to present accurate, up-to-date, reliable, and complete information. No warranties of any kind are declared or implied.

Under no circumstances is Zenfinex responsible for any losses, direct or indirect, which are incurred because of the use of information contained within this eBook, including, but not limited to, errors, omissions, or inaccuracies. Readers acknowledge that Zenfinex is not engaging in the rendering of legal, financial, or professional advice. The content within this eBook has been derived for educational purposes only.

Any information and trade ideas provided within this eBook is not intended as and does not constitute investment advice, investment recommendation, an offer or solicitation to invest or trade.

Zenfinex accepts no responsibility or liability relating to the use of this material as it is purely for educational purposes only.

ABOUT US

Zenfinex has been recognised as one of the fastest growing Forex & CFD brokers in the world.

As a result, our clients benefit from instant access to multiple markets, a choice of platforms, transparent execution, tight spreads, flexible leverage and superior customer service with offices around the globe. Our client's trading success is key to our business model, which is why we go above and beyond when delivering our products and service.

Zenfinex is the trading name of the Zenfinex Group of companies.

Zenfinex.global is owned and operated within the Zenfinex Group of companies and is dedicated to the Zenfinex Global LLC entity. The Zenfinex Group consists of:

Zenfinex Limited is a company registered in England and Wales under registered number: 11077380 authorised and regulated by the Financial Conduct Authority under firm reference number 816055. Its registered office is One Mayfair Place, Mayfair, London, W1J 8AJ, United Kingdom. The website dedicated to UK clients under FCA regulation is www.zenfinex.co.uk.

Zenfinex Global LLC is a company registered with the Financial Services Authority in Saint Vincent and the Grenadines under registered number 138 LLC 2019. Its registered office is Hinds Building, Kingstown, Saint Vincent and the Grenadines.

Zenfinex Global Limited is a company registered in Seychelles with registration number: 8428731-1 and is regulated by the Financial Services Authority of Seychelles with License number: SD092. Its registered office is F20, 1st Floor, Eden Plaza, Eden Island, Seychelles.

Clients must be at least 18 years old to use the services of Zenfinex.

zenfinex

CHAPTERS

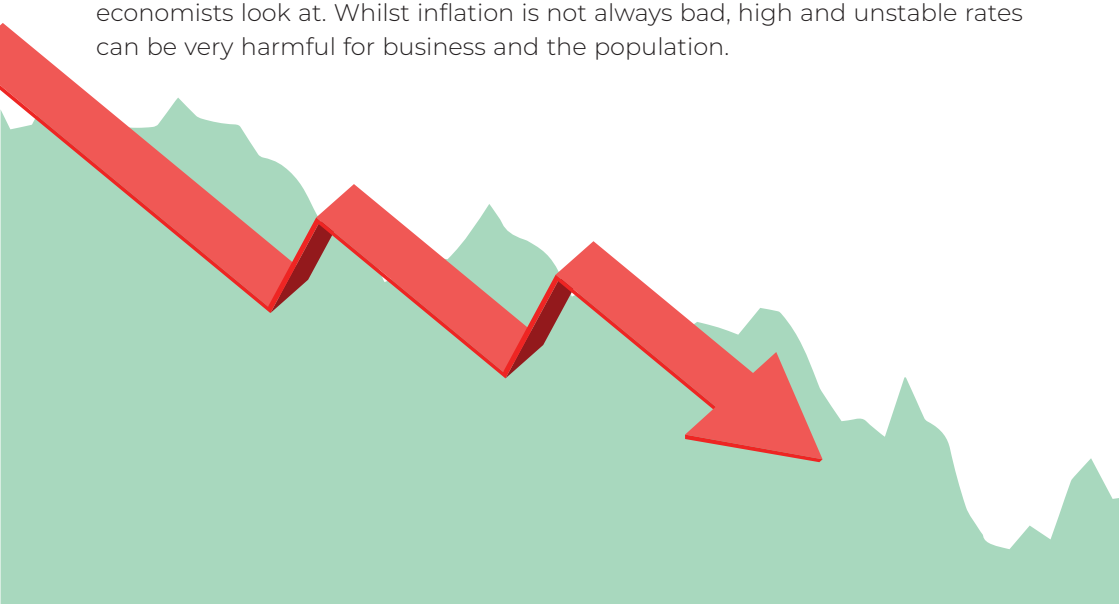
1	What is inflation?
2	What causes inflation?
3	Government measures to control inflation
4	How is inflation measured?
5	Historical inflation rates since 1992 across in the UK
6	Current Inflation rates across the G20 countries
7	What higher inflation means for currencies
8	How to hedge against inflation
9	How to calculate the impact of inflation on your income and savings
10	Measures to mitigate inflation

CHAPTER 1

WHAT IS INFLATION?

Inflation is the rate of increase in prices for a range of goods and services over a defined period of time.

In the UK, The Office for National Statistics checks the rate of inflation monthly by recording the cost of 700 different goods and services that customers purchase regularly. This is known as the Consumer Prices Index (CPI) and the Wholesale Price Index (WPI) these are important indicators that investors and economists look at. Whilst inflation is not always bad, high and unstable rates can be very harmful for business and the population.



CHAPTER 2

WHAT CAUSES INFLATION?

The three main factors that influence inflation are fiscal policy, demand for goods and services and production costs. Production input costs can include raw materials, commodities, fuel increase and rising wage demands.



CHAPTER 3

GOVERNMENT MEASURES TO CONTROL INFLATION

The role of the Central Bank is to use several tools to keep inflation within targets set by its government. Setting interest rates affects the amount of money people get on top of any savings is one of the main tools to keep inflation low and stable. This interest rate also affects personal loans and mortgages.

In simple terms, higher interest rates make it more expensive for people to borrow money and encourage them to save. That means overall, they will tend to spend less. Less spending lowers the rate of inflation.

The other tool used by The Central Bank is to BUY and SELL government bonds or gilts from the financial markets, often called quantitative easing.

CHAPTER 4

HOW IS INFLATION MEASURED IN THE UK?

The inflation rate is published each month by the Government's Office of National Statistics in the UK. Other countries will have their own method of calculating the published interest rates. Usually, the rate is calculated by measuring the price fluctuation of a range of goods and services. On the next page we can see how these split into categories by sector and percentage allocation to the final calculated inflation rate.



Table 1: Allocation of items to Consumer Prices Index including owner occupiers› housing costs (CPIH) divisionsin2022

NO		CPIH weight, February 2022 (Per cent)	Observed variation in price changes[1]	Representative items[2] (Per cent of total)
1	Food and non-alcoholic beverages	9.3	Medium	24
2	Alcohol and tobacco	3.9	Low	4
3	Clothing and footwear	4.9	Medium	12
4	Housing and household services	31.4	Low	5
5	Furniture and household goods	6.3	Medium	10
6	Health	1.8	Low	3
7	Transport	11.1	High	6
8	Communication	1.9	Medium	2
9	Recreation and culture	10.5	Medium	17
10	Education	2.6	Low	1
11	Restaurants and hotels	9.0	Low	7
12	Miscellaneous goods and services	7.3	High	11

CHAPTER 5

HISTORICAL INFLATION RATES SINCE 1992 ACROSS IN THE UK

The chart below shows how the inflation rate has fluctuated since 1992.

Governments will try to maintain a reasonable rate of inflation of around 2% per annum, which allows for an increase in the standard of living and general growth in the economy. When this is exceeded, measures including money supply and interest rates are adjusted to counter excessive inflation.

As shown below the inflation rate since 1992 , including

CPIH (Consumer Prices Index including owner occupiers' housing costs)

CPI (Consumer Prices Index)

OOH (owner occupiers' housing costs) is also shown.

Figure 1: Annual CPIH inflation rate highest since March 1992

CPIH, OOH component and CPI 12-month inflation rates for the last 10 years, UK, February 2012 to February 2022



Source: Office for National Statistics – Consumer price inflation

CHAPTER 6

CURRENT INFLATION RATES ACROSS THE G20 COUNTRIES

Country	Last	Previous	Reference	Unit
Japan	1.2	0.9	Mar/22	%
China	1.5	0.9	Mar/22	%
Saudi Arabia	2	1.6	Mar/22	%
Switzerland	2.4	2.2	Mar/22	%
Indonesia	2.64	2.06	Mar/22	%
South Korea	4.1	3.7	Mar/22	%
France	4.5	3.6	Mar/22	%
Australia	5.1	3.5	Mar/22	%
Singapore	5.4	4.3	Mar/22	%
South Africa	5.9	5.7	Mar/22	%
Italy	6.5	5.7	Mar/22	%
Canada	6.7	5.7	Mar/22	%
India	6.95	6.07	Mar/22	%
United Kingdom	7	6.2	Mar/22	%
Germany	7.3	5.1	Mar/22	%
Euro Area	7.4	5.9	Mar/22	%
Mexico	7.45	7.28	Mar/22	%
United States	8.5	7.9	Mar/22	%
Netherlands	9.7	6.2	Mar/22	%
Spain	9.8	7.6	Mar/22	%
Brazil	11.3	10.54	Mar/22	%
Russia	16.7	9.2	Mar/22	%
Argentina	55.1	52.3	Mar/22	%
Turkey	61.14	54.44	Mar/22	%

It is useful to compare the inflation rate across the world to see how governments use different policies to control high inflation. This can also give a snapshot of how well a country's economy may be performing on the world stage.

Here we have a table showing the different inflation rates across the G20 countries Ranging from 0.9% in Japan and as high as 61.4% Turkey annualised.

CHAPTER 7

WHAT HIGHER INFLATION MEANS FOR CURRENCIES

Historically when inflation rates increase, the value of the currency will fall due to a lower demand for the currency from overseas. This lower demand is caused by higher prices for exports which in turn means lower demand for the currency.

As an example of this relationship between inflation and currencies, see 2 charts below. They show UK inflation and UK currency rates between 2018 and 2022.

Chart 1 , At the beginning of this inflationary cycle, we see a sharp increase in inflation starting from early to mid 2021, with the expectation inflation will continue to rise for the foreseeable future.

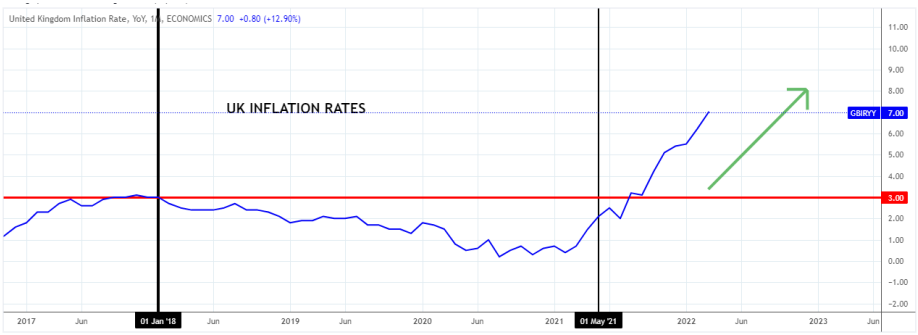
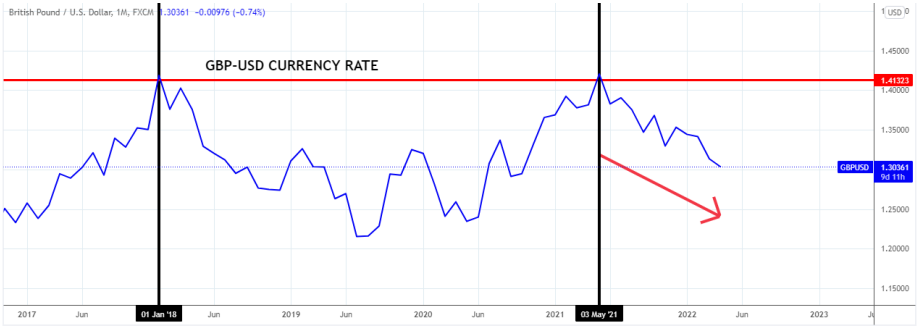


Chart 2 below shows the value of the GBPUSD. Notice the fall in the GBP in May 2021 at the same time as the rise in inflation rates during the same period. The GBP fell over 10 points in the following 11 months.





CHAPTER 8

HOW TO HEDGE AGAINST INFLATION

As a result of the inflation rate announcement in May 2021, the value of the GBPUSD fell 10 cents in the following 11 months as shown on chart 2, many traders would have shorted the GBPUSD as a hedge against the increase in inflation.

Hedging is a term used when a trader buys or sells a financial instrument to offset the negative effects of inflation.

Several asset classes can be used in times of high inflation including buying gold, other currencies or selecting stocks in industries which are involved with commodities and consumer staples.

Zenfinex offer a wide range of instruments to trade in these sectors. If you would like to learn how to trade these instruments, join our professional traders on the next online webinar to increase your awareness of financial trading.

CHAPTER 9

HOW TO CALCULATE THE IMPACT OF INFLATION ON YOUR INCOME AND SAVINGS

The impact of rising inflation on individuals can vary depending on household income and savings. If the cost of goods and services increase faster than income, the individual will be worse off. However, if the individual has savings, then the bank deposit interest rate will usually increase to offset some of the effects of rising prices of goods and services. To calculate the impact of inflation on your income and savings we will use an example below.

£40,000 per year and a savings account of £10,00. Using the current UK inflation rate of 6.2% and a net savings deposit income rate of 1% , we can calculate the impact of inflation on your income and savings

Income and savings inflation calculator			
Income per year		£	40,000
Savings		£	10,000
Inflation			6.2%
Deposit interest			1%
Salary Increase			2%
Income at the end of the year		£	40,800
Savings Increase at the end of the year		£	10,100
	Total	£	50,900
	less Inflation	£	47,744
	Inflation loss for the year	£	3,156
	Monthly loss in spending	£	262.98



Please contact us if you would like a copy of the free excel template shown above

CHAPTER 10

MEASURES TO MITIGATE INFLATION

As discussed earlier, inflation will reflect higher prices for everyday goods and services, which in turn will mean a fall in purchasing power from both your income and savings.

The first step should be is to define the amount of loss of purchasing power due to higher inflation. In the example above, we calculated the loss as £3,156 for the year, which is equivalent of £286 per month.

Second, with this knowledge you should develop a strategy to minimize the impact of inflation. As mentioned above, FX or Money markets trading is a tool utilized or used by traders to hedge against inflation.

There are numerous ways to trade currencies, stocks, and commodities. If you would like to learn how to get started, attend our free webinar. Learn the methods used by professional traders.

RISK WARNING:

Trading Foreign Exchange and Contracts for Difference (CFDs) is highly speculative and may not be suitable for all investors. The company offers trading on margin. The leverage created by trading on margin can work against you as well as for you, and losses can exceed your entire investment. Only invest with money you can afford to lose and ensure that you fully understand the risks involved. Seek independent advice if necessary and review our Risk Disclosure and Privacy Disclosure before opening an account. CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage.

zenfinex

START YOUR TRADING JOURNEY NOW!

www.zenfinex.co.uk

HAVE A QUESTION? GET IN TOUCH

Our vastly knowledgeable support staff can be contacted via telephone, live chat, email or a support ticket.

+44 (0) 20 3983 8250

www.zenfinex.co.uk

Sales: **sales@zenfinex.co.uk**

Support: **support@zenfinex.co.uk**

Zenfinex Limited is a company registered in England and Wales under registered number: 11077380 authorised and regulated by the Financial Conduct Authority under firm reference number 816055. Its registered office is One Mayfair Place, Mayfair, London, W1J 8AJ, United Kingdom. The website dedicated to UK clients under FCA regulation is www.zenfinex.co.uk.

Risk Warning: Trading Foreign Exchange and Contracts for Difference (CFDs) is highly speculative and may not be suitable for all investors. The company offers trading on margin. The leverage created by trading on margin can work against you as well as for you, and losses can exceed your entire investment. Only invest with money you can afford to lose and ensure that you fully understand the risks involved. Seek independent advice if necessary and review our Risk Disclosure and Privacy Disclosure before opening an account. CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage.

CFDs are complex instruments and come with a high risk of losing money rapidly due to leverage. **63.64% of retail investor accounts lose money when trading CFDs with this provider.** You should consider whether you understand how CFDs work and whether you can afford to take the high risk of losing your money.

You are strongly advised to obtain independent financial, legal and tax advice before proceeding with any currency or spot metals trade. Nothing in this site should be read or construed as constituting advice on the part of Zenfinex or any of its affiliates, directors, officers or employees.