Exchange Rates: Why They Matter When Traveling Abroad

Over the past week, I was in Barcelona and Valencia, Spain. I was dropping off my 13-year-old daughter, Chloe, who will be living in Valencia and attending public school for a semester. She is super-excited and a bit nervous. Anyway, I thought this was a good opportunity to update this article on exchange rates.

The good news for Chloe (and her parents) is that Europe is cheaper than it was five years ago (or at least less expensive) due to changes in the exchange rates. That goes for European vacations as well as goods and services produced by **Eurozone countries**. The reason is the US dollar has strengthened over that time frame against the Euro (and many other major currencies).

Let's have a quick primer on currency markets and why exchange rates matter to you, especially if you're traveling abroad or thinking of buying a vacation home abroad.

Strong dollar makes travel abroad and imports cheaper:

Unlike the thousands of stocks, bonds, mutual funds, and ETFs, only eight major countries' currencies dominate currency trading: the United States, Eurozone, Japan, United Kingdom, Switzerland, Canada, Australia, and New Zealand.

When you spend money overseas, you must exchange your dollars for the currency of the country you are visiting. All currencies are quoted in pairs because each currency is valued in relation to another. For example, if the EUR/USD pair is quoted as $1.16, that means it costs $1.16 to buy one Euro. This is approximately the current EUR/USD exchange rate. However, five years ago, it cost $1.35 to buy one Euro. Therefore, the cost of an ice cream (helado) in Valencia may be exactly the same as it was two years ago (let's say $3 Euros), but it became 20% less expensive for the American tourist. Yay, Chloe!

See current exchange rates [HERE](#).

Weak dollar is better for American exporters.

This scenario makes it sound like a strong dollar is a great thing. It is in the sense that a strong dollar makes it cheaper for Americans to buy goods from other countries and travel abroad.

So why would the US government ever want to weaken our currency? The reason is a "weak" currency stimulates exports by making it cheaper for other countries to buy stuff from us. It is also cheaper for tourists from other countries to visit the US when the dollar is weaker (their currency is stronger).

To review… Americans want a strong dollar when they are buying stuff from other countries or traveling abroad, and they would prefer a weak dollar if they own a business that exports or depends on tourists coming to America.

Final thought: To get the best exchange rate when you travel, use your credit card or ATM card in foreign countries. The mark-up can be very expensive at a currency exchange booth or at your bank. For example, my credit card and ATM withdrawal gave me Euros for $1.16 US. However, when I ordered some Euros before my trip at my bank in Phoenix, Chase charged me $1.24. I thought that was bad…until I saw that the currency exchange booth at the airport was charging $1.35 per Euro!

P.S. Valencia is a great place. Add it to your bucket list if you haven't been there.

P.P.S. Good luck, Chloe. We miss you already!