

GBP-EUR Euro depreciation against Sterling

Tuesday, 16 September 2008

The Euro has depreciated against Sterling due to the European commission cutting their GDP growth target for 2008 from 1.7% to 1.3%. They have also raised the Euro zone inflation estimate for this year to 3.6% from 3.1%. Many believe the recent emphasis on inflation is purely to deter the market pricing in rate cuts. Although it is now strongly believed that the euro zone will slip into a technical recession (negative growth for 2 consecutive quarters) in the third quarter, reinforcing the belief that the ECB will cut rates before the end of the year.

Last Thursday the BoE MPC member David Blanchflower told the UK treasury committee that a deeper than forecasted decline in the UK economy and a sharp rise in unemployment is very likely. Meanwhile, BoE governor Mervyn King acknowledged slowing growth, but played down the likelihood of an early rate cut.

The outlook for both the Euro zone and the UK is looking bleak and the GBP/EUR cross will be very hard to predict in the long term however in the short term the cross to remain between 1.21 and 1.27, although the Pound may be steering the cross more toward the downside.