

GBP-EUR fear of a global recession

Tuesday, 14 October 2008

Last week saw a turbulent week of trading for the Euro, with the GBP/EUR cross sliding from 1.2980 at the start of the week to 1.2380 at the end. Billions of pounds of value was wiped from stock markets around the world as fear of a global recession gripped the markets in the middle of the week, strengthening the Euro as investors moved their assets towards the safe haven. Despite the ECB's decision to leave rates on hold only one week earlier, ECB President Trichet defended Wednesday's surprise half-percent cut, saying that inflation concerns were no longer sufficiently significant to outweigh the ECB's desire to calm the financial markets and restore investors' confidence.

Over the weekend, EU leaders met to discuss the financial challenges facing the Eurozone, emerging with many plans but no firm commitments. This uncertainty is likely to weigh on the Euro over the coming week as the single currency faces its first real test of different member countries requiring vastly different economic policy to avoid recession. Following the British government's decision to shore up the major British banks with £50bn of loans and investments, the pound strengthened back against the Euro in early trading this week, and a return to the 1.30 level is not unforeseeable.

The volatility of the markets makes it essential to use all options available whether buying or selling Euros to ensure you secure your currency at the optimal rate. It may also be prudent to place a stop-loss order nearer to the 1.20 level to insure against a meltdown in the British financial industry and protect your investments.