

GBP-EUR moving away from Sterling?

Thursday, 23 October 2008

The past week was riddled with comments and data which suggests that Euro Zone growth and interest rates will deteriorate faster than market participants had initially expected. This balance will be the primary concern for traders over the coming week – barring any unforeseen bank collapses or broad seizures in overnight lending as we have already seen in the UK & US. As a result the Euro had a vulnerable week, losing ground against the Pound & Dollar, providing some short term rest bite for those moving away from Sterling.

This week, Rightmove reported a 4.9% decline in asking prices for October but there was a monthly increase in house prices and the UK currency strengthened against the majors. In spite of recent Sterling gains there will still be major fears over the economy and further pressure on the Bank of England to cut interest rates again. Sterling will still gain some support from optimism that the banking sector has been stabilised by the government's £37bn. bailout but is this too little too late? Sterling will remain very volatile as the eagerly awaited BoE minutes are released this week, which may push the Pound back to the early 1.20's if more cuts are on the agenda.