

GBP-EUR Sterling falls to all time lows

Tuesday, 18 November 2008

Sterling fell to all time lows against the Euro last week as fears of recession in the UK mounted.

Responsibility for this seems to lay at the feet of Mervyn King, the governor of the Bank of England, who appeared reluctant to rule out the possibility of cutting interest rates further in a speech he made last Wednesday. Sterling weakness was compounded by the subsequent comments of Gordon Brown, who did little to protect the beleaguered currency.

The Pound's recent performance against the Euro suggests that the market has priced in further rate cuts by the BOE, and the likelihood that these cuts will be more aggressive than those of their European counterparts.

The cross may gain some relief from the poor performance of both Italy and Germany, (Germany are the largest single economy in the Euro zone), both of which have announced that they are in recession, a situation narrowly avoided by France. Despite this Sterling has shown little in the way of strength, highlighting the disappointing economic performance this side of the Channel and the difficulties ahead for UK fiscal policy setters. The poor performance has led to most analysts revising their futures outlook, with the majority pointing to further Sterling weakness before we see any significant recovery.

All things considered, there may be some short-term recovery for GBP, based simply on the deteriorating economic climate in the EU, but the longer term outlook holds little optimism as it appears that here in UK we are bracing ourselves for a major economic slowdown.