

GBP-EUR impact on Sterling

Wednesday, 07 January 2009

With fresh lows on the GBP/EUR cross last week continuing the trend for December it was a much needed respite for the poor beleaguered Sterling when it rallied from its recent lows against a broadly weakened Euro on Monday. It finally seems that the main drive to parity has for the time being taken a short break, but how long will this break last, if at all?

Three key events will have an impact on Sterling and may well see it flirt with near parity levels again, these being Tuesdays Purchasing Managers Index, Wednesdays Nationwide Consumer Confidence Survey for December and the all important BoE rate announcement on Thursday.

Expectations weigh heavy on the likelihood of a rate cut with markets pricing in an 80% chance that the Bank of England will slash borrowing costs again down to 1.25% from 2%. This would take the rate to its lowest since the bank was founded in 1694, rates have never been as low as the current 2%. The tight credit conditions and the threat of deflation paint a very bleak economic picture which looks likely to convince the Monetary Policy Committee (MPC) that a hefty cut is necessary.

The likelihood of a rate cut will end any strong rally for Sterling against the Euro, Friday's release of Producer Price Index will add further downside to Sterling and the relentless barrage of negative data which is expected from the U.K economy is sure to yet again push GBP/EUR cross to record lows.