

GBP-EUR cut interest rates

Wednesday, 21 January 2009

The European Central Bank (ECB) cut interest rates last week by 0.5% to 2% as widely expected. This was the fourth consecutive cut since September 2008 as it continues efforts to support the Euro zone economy. In the press conference afterwards, ECB President Jean Claude Trichet signalled that it may pause in the February meeting, with any further move likely to wait until at least March. The Euro fell against Sterling following the decision and comments.

The Nationalisation of Anglo Irish Bank by the Irish government and the deterioration in sentiment towards the Greek and Spanish economies undermined some support for the Euro.

However despite this, the GBP/EUR rate fell sharply on Friday to end 1.3% down from 1.1255 a week earlier, benefiting those converting Euros into Pounds.

Looking ahead to this week, event risk will be relatively low but there are still a handful of indicators worth watching. On Tuesday the German ZEW survey of investor sentiment may impact negatively on the Euro if opinion on the economic outlook fails to show improvement. On Thursday, the European Central Bank's Monthly Report is likely to highlight the bleak outlook for the economy, creating bearish potential for the Euro. On Friday the Purchasing Managers' Indices for the Euro zone's manufacturing and service sectors are expected to reveal an eighth consecutive monthly decline in activity, while the composite index is anticipated to come out as the worst level since recordkeeping began in 2005, highlighting the extent of the recession plaguing the region.