

GBP-USD risk appetite increased

Thursday, 12 February 2009

Sterling maintained a generally firm tone during Friday as the underlying pressure for a stronger correction downward continued.

The dollar was lower on Friday as risk appetite increased and demand for safe haven flows declined. Non-farm payrolls fell the most since December 1974 and the unemployment rate reached the highest level since September 1992. The US Dollar weakened against both Sterling and the Euro in the immediate aftermath, although market reaction to this release was relatively muted.

Sterling was supported by the Bank of England's announcement that the BOE may start buying commercial paper next week and UK industrial production fell 1.7% in December after a 2.5% decline previously, maintaining fears over the economy, and this was the worst performance since 1981.

The delayed release of Obama's bank bailout plan has sharpened focus on key outstanding issues, such as illiquid assets and the creation of a so-called 'aggregator' (government backed) bank to buy them. The FX market may be disappointed by "watered down" policy initiatives.

The disappointment of the U.S bank bailout plan will undoubtedly weigh heavily on the greenback and losses on cable up to 1.50 are expected. Dollar purchasers should look to buy quickly as the rate looks for a good spike in your favour.