

GBP-EUR EU economy darkens

Tuesday, 24 February 2009

As the chart shows, and as regular readers will be all too aware, the pound has suffered massively against the Euro over the last 6 months, nearing parity at the start of this year. We have however seen a gradual recovery in rates this year, the question is, will this continue?

The main reason the rate has improved is not to do with Sterling gaining strength, rather the Euro becoming weaker as the outlook for the EU economy darkens, and the currency becoming cheaper to purchase. Many economists now believe however, that the UK economy is fundamentally weaker than the EU economy and is expected to remain so throughout this year.

With the Bank of England (BoE) having already slashing Interest rates to 1%, there seems precious little more room to try and stimulate the economy any further using this method. Many analysts now believe the BoE may resort to Quantitative Easing in an attempt to boost the economy - essentially pumping newly created money into the economy.

Treasury Secretary Stephen Timms has suggested that plans to inject more cash into the economy could happen "quite soon". In our view this measure is one of last resort as the traditional method of economic stimulus (interest rates), have almost reached the lowest they can go. For this reason, if implemented, the markets may well view this as a desperate measure of last resort, and GBPEUR rates could well drop back to parity or below as the year goes on.

If you have a requirement to purchase Euros, consider fixing your rate sooner rather than later, to protect you against a possible downturn in rates. A €150k purchase made today is a staggering £17k cheaper than at the beginning of January, a saving of 12%.

Data of note this week

UK GDP Data on Wednesday. This is the total value of all goods and services produced by the UK. GDP is considered as a broad measure of the UK economic activity and health. Recent declines in GDP have confirmed the UK is in a recession. Any further decline in this measure could cause further weakness for the pound and exchange rates dropping.

Consumer Price Index data for the UK, EU and Germany. This measures the average price change for goods and services purchased by households, and is seen as a good indicator of inflation, and therefore can give insight as to how central banks may move interest rates in the months to come. We also have UK House Price and Consumer Confidence data, both of which if negative could cause GBPEUR Exchange rates to fall. Consider fixing today's Euro rates using a Forward Contract, and make sure your currency costs you no more than necessary.