16 May 2017

Better than expected inflation figures

Despite better than expected inflation figures this morning, Pound/Euro rates have started to fall away quite sharply, dropping into the €1.16's.

A month ago GBP/EUR was touching €1.20. Despite inflation being at 2.7% (significantly above the BoE's target of 2%) this is purely due to the impact of a weak Pound, and Mark Carney has already stated that raising interest rates would not be an effective way of tackling that inflation.

This means that with rates likely to stay at record lows for another few years, consumers are going to start feeling the pinch. It was always likely to be a case of when, and not if, the rate would start falling away. Political risks in Europe have dissipated, and focus is starting to shift back to the UK.

After a little breathing space since Article 50 was triggered in March, Brexit negotiations will soon start in earnest and that's likely to start weighing on Sterling further in the coming weeks and months.

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18 April 2017

Theresa May's Shock Announcement

Following Theresa May's announcement that there will be a general election on the 8th June, we have seen the pound rise against the euro with the currency pair hitting its highest level since 24th February. With official Brexit talks due to start at the end of April and the first round of the French elections set for Sunday we could see some heightened volatility for the currency pair in the coming weeks, so this morning's rise is certainly welcome news for euro buyers.

Written by Arron Morris, Senior Currency Broker at Foremost Currency Group

29 March 2017

Article 50 and the Currency Markets

Fears of a slump in the value of Sterling have failed to materialise today following the invocation of Article 50; instead the Pound rose by a cent against the Euro.

Much of the weakness in Sterling over the last 9 months has been down to uncertainty, and perhaps when negotiations begin and this fog of uncertainty begins to lift, the Pound may recover further and eventually reach levels seen before the referendum, particularly if UK economic data continues to impress.

There awaits a prolonged period of negotiations ahead however, and Sterling is likely to remain volatile and susceptible to downward pressure in the short term.

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21 March 2017

UK Inflation Figures and Carney to speak

UK inflation figures have just been released, showing that the annual CPI reading was 2.3%, a little higher than expected and above the 2% target at which the Bank of England would normally raise interest rates. Following on from last week's BoE minutes, the markets have taken the news that there is now a much higher chance of interest rates going up later in the year.

Mark Carney to speak at 10:35am

This caused GBP/EUR to jump from €1.1460 to €1.1535, but in reality we're simply back to where we were this time yesterday. In about an hour at 10:35am the BoE governor Mark Carney will be giving a speech and I think this will be key to the Pound holding on to these gains or not. On the one hand, the BoE have already stated that they will tolerate above target inflation for a period without moving interest rates. If Carney re-iterates this view later this morning, then it's likely the Pound will fall. If however he replicates the view published in the most recent BoE minutes in which some members of the MPC said that they may want to move rates higher if inflation keeps rising, then the Pound may gain further.

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16 March 2017

Euro gains on Dutch election result

The Euro has gained strength following the Dutch election result, which saw a comfortable victory for the Prime Minister, with the far right candidate Geert Wilders unable to capitalise on an early lead in the polls. This means that there is now little possibility of the Netherlands leaving the EU and has strengthened the Euro as a result.

All eyes will now be on the polls in the upcoming French elections. If Marine Le Pen loses traction then the Euro will get stronger still and pull Pound/Euro rates even lower. Many people think that the current GBP/EUR rate is very low, but actually it has been supported by a fundamentally weak single currency, due to concerns over populist voting in Holland and France. If it were not for this it would be much, much lower.

If a win for Le Pen starts to look less and less likely, this weakness in the Euro could evaporate and cause GBP/EUR to fall. If you look at other currency pairs like Pound/Dollar you will see that since the referendum the rate has fallen by around 20%. Pound/Euro on the other hand has only fallen by 12% due to the inherent weakness in the Euro that's keeping it supported. If GBP/EUR had fallen by the same margin then we would currently be looking at a rate to buy Euros of about €1.04!

With Brexit negotiations due to begin very soon, and the possibility of the Euro bouncing back if the French election polls show Le Pen losing support, you can see that there is a risk of a sharp decline for Pound/Euro rates.

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8 March 2017

Chancellor's Budget

The Pound had been drifting lower today however the Chancellor's budget has given the Pound a lift due to an upward revision on growth forecasts. Usually we don't see the budget have much effect on the currency markets, however with politics now the driving force behind exchange rate movements, this budget has bucked the trend. While Sterling is slightly higher, I still expect a move to the downside when Article 50 is triggered in the coming weeks. Once the Dutch and French elections are out of the way and assuming far right parties don't win power, GBP/EUR is likely to head lower as the Euros strengthens and Brexit negotiations begin.

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10 February 2017

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Key 2017 events that will affect GBP/EUR

How could Sterling/Euro rates fare in 2017?
Here's my take on what to watch out for and how the GBP/EUR pair may move.

- March 2017 - Article 50 is likely to be invoked. Uncertainty surrounding the uncoupling process and future trade negotiations are likely to weaken sterling and the general consensus is that it's likely the Pound will fall when this happens.

- 17th March 2017 – Dutch elections. The Dutch have already voiced a desire for a referendum. A 'vote for change' could trigger this, which may weaken the Euro.

- April/May 2017 – French elections. A right wing win would bring about the possibility of the French having their own referendum and would therefore also be EUR negative.

- September 2017 - German elections. Unlikely to see Merkel ousted, however a growing number of German's are unhappy footing the European bill, and if Merkel doesn't win another term, the Euro may weaken.

Each of these elections could move GBP/EUR rates significantly and have the potential to deliver a blow to the EU, each more severe than the last; the Dutch go first in March, the French in May and finally the German's in October. With Gert Wilders and Marine Le Pen having surprise leads in some polls for the far right, the single currency could be in for a real shoeing. Conversely, should these three votes go the other way it would be a resounding victory for the EU with Francois Fillon and Angela Merkel being devoted Eurocrats. This would strengthen the Euro and make it more expensive to purchase.

Taking the above into account, there is the risk that GBP/EUR rates may fall in the short term as the UK invokes article 50. Uncertainty is what has been keeping Sterling under pressure since last June, and while negotiations are on-going this uncertainty could increase, however he underlying UK economy continues to perform robustly and if this continues, interest rates may rise, and the Pound should start strengthening. Political events in Europe that I have outlined above will also be a big driver for the value of the Euro, with the potential for it to weaken significantly and pull GBP/EUR rates back up again.

It's likely therefore that GBP/EUR over the next 3 months will fall to around the €1.15 level, however focus will then shift to political events in the Eurozone which may weaken the single currency. My short/medium/long term forecasts for GBP/EUR, GBP/USD and EUR/USD are below.

10 February 2017

Pair	3m	6m	9m	12m
GBP/EUR	1.15	1.18	1.25	1.24
GBP/USD	1.20	1.20	1.25	1.30
EUR/USD	1.04	1.02	1.00	1.05

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24 January 2017

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Supreme Court's Decision

As expected the government have lost its appeal in the Supreme court against a ruling that will make it necessary to consult parliament before formally triggering Article 50, and starting the process of talks with the EU.

The court ruled by a majority of 8-3, and the Pound had rallied slightly against the US Dollar and Euro as a result. Any gains are likely to be limited however, as the decision was widely expected and the currency markets had already priced in a defeat for the government. The fact that the government had already conceded that Parliament should be consulted makes the decision a bit of a non-event.

Clients looking to convert Sterling to other currencies should consider taking advantage of the gains, as we are likely to be entering a period of significant volatility for the Pound once negotiations begin.

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29 November 2016

How could the Italian referendum affect Pound/Euro rates?

GBP/EUR has risen by 5% this month, and is around the best it's been in more than 2 months, however in the last week has been range-bound between €1.17 & €1.18. Next week could see the pair break out of this range due to the Italian Referendum.

The vote itself is simply a decision on amending the Italian Constitution to reform the appointment and powers of the Parliament of Italy. In reality however, it means much more than that and has far reaching consequences. If for example the results don't go the way of Prime Minister Renzi, then it would undermine Italy's fragile political stability. In turn this could lead to Renzi resigning and the Five Star movement could win power. They have promised a full on referendum on staying in the Euro area, and so could effectively lead to the breakup of the EU. That's why markets are concerned and the Euro is weakening.

If Renzi does lose the election, then there will be political and economic turmoil across the EU, which may well weaken the Euro further and push GBP/EUR higher. If he wins however, expect the single currency to regain strength and rates to drop back away from the current highs. Either way, I think we'll see a price correction from the current level of €1.18.

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18 November 2016

GBP/EUR rates at a 2 month high

GBP/EUR rates are currently at a 2 month high due to the political risks facing Europe in the coming months. Those that need to buy Euros in the next 6 months should consider their options.

It's not a given that rates will remain at these levels, so it would be prudent to consider fixing a rate now on at least 50% of what you require using a 'Forward Contract', thereby reducing your exposure to the FX market. Politics is the main driver of the Pound at present, and when Article 50 is triggered next year the Pound could come under renewed pressure.

Simply holding out and hoping the exchange rate will move in your favour is not a wise strategy; hope is not a reliable economic tool.

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11 November 2016

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Why has the pound risen so much?

Sterling/Euro rates have risen by 5% in a little over 48 hours. The catalyst for Sterling's rise was the US election result on Wednesday. Markets expected the Dollar to weaken and the Euro to strengthen which should have caused GBP/EUR to drop, but that's not what we've seen. Investors have been reversing short positions against the Pound, on the view that in light of Trump winning the election and the UK voting to leave the EU, there are fears that there could also be populist votes in the EU in their upcoming elections & referendums. Perhaps then the UK currency has been unfairly punished in recent months.

With Germany and France holding elections next year, and a referendum in Italy next month, there is now an increased chance of populist votes here too, and for that reason investors are dumping the Euro and putting their funds back in to the Pound, which has caused the rate to rise so much in such a short period of time. It's also likely that UK interest rates may now need to rise due to rising inflation, and the prospect of higher interest rates also strengthens a currency.

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9 November 2016

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What does a 'President Trump' mean for the currency markets?

As the world digests what a 'President Trump' means for the US and Global economies, the reaction on the currency markets has so far been fairly muted. Logic would dictate a weakening of the US Dollar, and a strengthening of the Euro and other safe haven currencies such as CHF and JPY. This is initially what we saw overnight, and the inverse correlation between GBP/EUR and GBP/USD is clear to see from the charts below as the GBP/USD rose and GBP/EUR fell. However the moves have largely been reversed as European markets open, and the USD has regained some strength. It's likely we'll face a period of volatility however as markets digest what it all means, but for the moment it's surprising that the markets have not moved in large ranges as we saw following the EU referendum in June.

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3 November 2016

Sterling higher on High Court ruling, but nothing has really changed

The Pound has risen to €1.12 against the Euro, and above $1.24 vs the US Dollar this morning, after a high court ruling that Parliament must vote on whether the UK can trigger article 50. It's expected that the government will appeal the decision to the Supreme Court.

I'm surprised the Pound has reacted in this way to be honest. It's likely that even if the government lose their appeal, most MPs will vote to trigger article 50, so it doesn't really change much. However, what it might do is delay when article 50 is triggered, due to parliamentary hurdles and red tape. In my view therefore, all this will do is create even more uncertainty rather than just getting on with it. I think that this spike will be short lived when investors realise this doesn't mean that 'Brexit' isn't going to happen, and all it really means is there may be further delays and uncertainty, which of course isn't likely to help the Pound.

Later this afternoon, we have 'Super Thursday' from the Bank of England, in which we will see the Quarterly inflation report, a decision on interest rates, and a speech by governor Mark Carney. Rates are likely to be left on hold, and Carney is not likely to talk up the Pound.

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27 October 2016

UK GDP figures show growth

This morning's UK GDP figures showed growth of +0.5%, beating analysts' forecasts of +0.3% and showing that the UK economy continues to be resilient to the effects of the Brexit vote. Compared to the EU economy, the UK is looking positively vibrant, and the recession many had predicted now looks highly unlikely. Perhaps the BoE acted prematurely in cutting interest rates earlier this year. Sterling has strengthened as a result rising against both the Euro and the US Dollar, however the gains were short lived and GBP/EUR has already dropped back to it's level of €1.12 that it seems comfortable at. Continued uncertainty over how the UK will conduct negotiations with the EU next year is likely to keep downward pressure on the Pound.

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