

GBP vs EUR

The British Pound headed for a record low against the Euro



In less than 18 months the British Pound has lost 30% of its value.

What used to be a steady and constant trading range is now a steep downtrend.

The fundamentals behind this price-action; negative macroeconomic outlook, increase in unemployment, drastic decrease in net lending, slowdown of general demand affecting retail and industrial activities, have decrease confidence in the UK's economy, invariably impacting money flow even further.

In addition to this, Bank of England has slashed the Bank Rate by 200 bps in the last two meetings, now at 1.5%, giving a very low return to savers and/or foreign investment, whilst offering an increase its risk, by having increased their sovereign debt levels.

Provisional estimates show that for the financial year 2007/8 the UK recorded a government deficit of £38.7 billion, which was equivalent to 2.7 per cent of gross domestic product (GDP). This reference value in the Maastricht Treaty's Excessive Deficit Procedure sets deficit and debt targets of 3 per cent and 60 per cent respectively for all EU countries. The UK's compliance is assessed on a financial year basis. At the end of March 2008 general government debt was £614.4 billion, equivalent to 43.2 per cent of GDP. These data were reported to the European Commission at the end of [September 2008](#).

These appear to be the main forces driving the British Pound valuation against other the EUR and other currencies.

With likely IR cuts ahead, this downtrend could persist slightly, however there is no indication that the UK is in worse shape than some European counties, i.e. Spain or Italy. Therefore, in my personal opinion this is the end of the downtrend. Parity could well be a long term equilibrium point.

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