

The Great Fall of **G**reat **B**ritain **P**ound



November 2011



Currency	Strategy	Range	Target	Stop loss
GBP/USD	SELL	\$ 1.6100-6200	\$ 1.5400	\$ 1.6550

The two year old European debt crisis has been the focal point of the financial markets. Developed nations are concerned about the growth prospects and a likely default by European countries may end up in a mild recession by the year end. The ongoing concerns have resulted into a cut down in GDP rate by IMF (International Monetary Fund) for all the developed nations.

UK economy is facing the heat of European debt crisis as they have a significant amount of exposure in the European banks. The BOE (Bank of England) is looking forward to support European economies through IMF by providing more money; this indicates that the contagion fear is not only on peripheral countries in Europe but on United Kingdom also. **Going further, the fundamentals of UK are likely to deteriorate for the next quarter and we see GBP to test the level of \$ 1.54 against the US dollar.**

- ✓ **The Bank of England last month expanded government stimulus by 75 billion pounds, and the government hopes to increase lending as the European debt crisis increases fears of a UK recession.**
- ✓ Recent data from UK showed higher than expected jump in GDP (Gross domestic product) for the third quarter of 2011. GDP increased 0.5% on the QoQ basis whereas it decreased YoY basis against 0.6%. However, **Bank of England estimates says that the pace may not sustain and there is a chance of stagnation in 2011's final quarter.**
- ✓ **International monetary fund has lowered its GDP forecast on UK from 1.5% to 1.1% for 2011 and instead of 2.3% to 1.6% for the year 2012.** The outlook for the growth has been deteriorated for UK economy.
- ✓ Looking at more recent numbers from the manufacturing sector, we see a market contraction in UK economy as the **PMI manufacturing for October tumbled down to 47.4 from the previous figure of 50.8.**
- ✓ Out of the nine members of monetary policy committee no one is in favor for an interest rate hike. **Lower interest rate dampens the attractiveness of the currency over US dollar.**
- ✓ According to Bank of International Settlement (BIS), **UK has an exposure of 57.44% out of the total foreign claims in European Union.** The total claims from abroad are amounting to

361724 million dollars, out of which they have exposure of 2097745 million dollars in European banks, Austria and Belgium.

- ✓ LIBOR (London Inter-bank offer rate) is inching upwards to show a liquidity crunch in the entire banking sector. The scenario in the inter-bank lending rate is reflecting the signs of financial crisis of 2008.
- ✓ Housing market of UK is not picking up and the **inflation is also at all time high of 5.2%** and slower growth will make it tougher to gain momentum in the economic recovery of UK.
- ✓ European countries are the major importers from the United Kingdom. **Demand for 50% of the total exports of UK comes from Germany, France, Italy and Spain which indicates that the United Kingdom's growth is dependent on Europe's fate.**
- ✓ **Unemployment rate is at 8.1% and the consumer confidence is deteriorating continuously in UK which indicates that the economy may face another recession.** Higher inflation remains a concern for UK growth rate. Exports to Europe may fall in the coming quarters which will affect the current account numbers.

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