GBP and a Darkening UK Mood

- GBP bears tapping an expanding pool of pessimism
- Market focused on Parliament's return after recess
- UK fundamentals have taken a turn for the worse

The Fed ‘put’ has lifted cable off its lows. But GBP bears are now able to tap an expanding pool of pessimism.

Such has been the conviction among GBP bears in recent months that from May 6 to May 23, EUR/GBP registered an unprecedented 14 consecutive higher closes to catalogue a near 4% increase and the pound has since gone on to lose a further 1.8%.

Accordingly, CFTC data show that non-commercial accounts have built sizable short positions in GBP (72,982 – a level that has only been exceeded in four separate periods since 2010) and they may feel quietly confident they are not about to be wrong-footed.

Political uncertainty continues to exact a toll on confidence, particularly since early June when fears of a no-deal Brexit were heightened by Boris Johnson’s leadership bid and his subsequent comment that “we are getting ready to come out on 31 October. Come what may”.

Last week, Parliament supported an amendment to a bill that will complicate any effort to prorogue Parliament but will not stop it; and many on the Remain-supporting wing of the Conservative party appear prepared to support a no
confidence motion in the government should a no-deal option be pursued.

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Notably, the market appeared indifferent to Labour’s declared support for a second referendum mid-week, although in view of the general collapse in polling support for the two main parties and the stated refusal of various parties to work with each other in complex coalitions, it is little wonder that the market was nonplussed.

All of this is focusing attention on the return of Parliament in September after its recess – as attested by options pricing (a point we made last month). The gap between three-month and two-month at-the-money-forward implied volatility has widened out significantly relative to other timeframes – in other words, over the very period the parliamentary fight is likely to re-commence.

Yet aside from this unrelenting political uncertainty, UK economic fundamentals have also taken a turn for the worse in recent weeks, and so much so that BOE Governor Mark Carney has lived-up to his now familiar “unreliable boyfriend” shtick.

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And Carney’s allusion to "additional help" for the UK economy was hardly preemptive. While May’s industrial production rebounded after vehicle-plant shut downs in April, the timelier June PMI has sunk to a six-year low.

Construction is in recession, shop prices are falling and the BRC hasn’t seen consumer spending at such a low ebb in

3. PBOC lends financial institutions CNY 200 Bn in one-year MLF rollovers >

4. Turkey’s Erdogan says “We aim to reduce inflation to one digit by the end of this year. As we achieve this, we will achieve our year-end interest rate target as well” >

5. IMF’s Lipton tells FT that "it makes sense" for monetary policies to remain accommodative >

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We recently highlighted how the territory above GBP 0.90 had been infiltrated relatively infrequently since the EUR’s inception (just 177 times in fact over 5,228 trading days).

However, while BNY Mellon iFlow data show that there has been no net buying of GBP by overseas investors since the middle of June, it also shows that outflows accelerated last week as EUR/GBP finally touched the 90 pence level.

Perusing the parade of ‘ugly’ currencies that greets them each morning, traders may feel that GBP in particular is struggling to convey a single ‘redeeming defect’.

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