

28th August 2018



Market Update: Parity Pound?

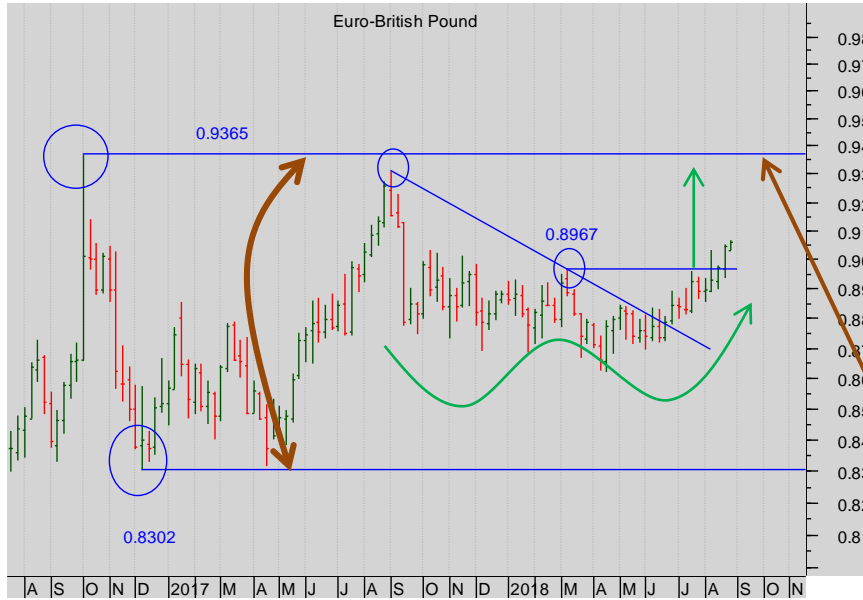
UPDATE
Technical
Fundamental





Sterling's vulnerability v the Euro

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WEEKLY CHART

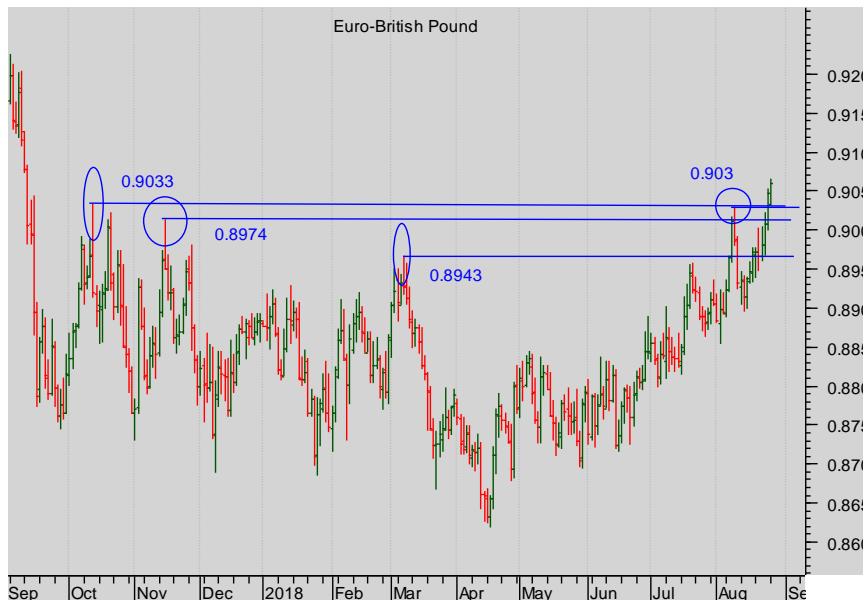
The wide range since 2016 is clear.

But within that there is good evidence that a bottom formation has been completed.

The push up through 0.8967 has completed a Double Bottom.

That level 0.8967 should now be good support on any pull-back.

And the minimum target? The top of the trading range about 0.94.



DAILY CHART

That bottom formation in greater details: there is not tremendous support beneath the market **on the succession of Prior Highs around 0.90.**

The market looks very well supported and set to drive higher.



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FUNDAMENTALS:

The result of the 2016 referendum on the UK's continued membership of the EU created much uncertainty about the UK's future economic and trade relationship with the EU once the UK was no longer a member state. So much so that Sterling has become the barometer of how business, investors and traders react to the drama of both the UK's internal negotiations on the kind of relationship the UK should seek with the EU, but also on the UK/EU negotiations about the terms of the "BREXIT" divorce and future trading relationship.

For a considerable period of time since she became PM, May has played her cards very close to her chest, trying to appease a fractious Conservative party, while attempting to sound as though she sought as close a relationship with the EU as possible.

This was characterised by her famous 'no deal is better than a bad deal' statement for her domestic audience, while saying to her wider EU audience that she sought a bespoke and special free trade agreement with the remaining EU27.

The result has been that over the past two years or so Sterling has suffered increased volatility. After the announcement of the so called Chequers deal the Pound staged a limited recovery that was quickly erased as two senior and several junior government ministers resigned.

The Pound's fortunes have recently deteriorated further as both the EU commission and the British government publicly stated that they are working on plans in the event of a non-deal "BREXIT".



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FUNDAMENTALS: CONTINUED

From a purely economic point of view it would be desirable for the UK and EU to agree not just an orderly exit, but also at the very least, have in place the blue print for a future UK/EU trade agreement.

Much has been made about how the UK economy would suffer under a no-deal scenario, but the truth is the EU would find it uncomfortable too. As the UK government begins to release papers offering business and individuals advice in the event of a no deal BREXIT the Pound has come under increasing selling pressure, especially against the Euro.

This does not mean that a no-deal exit is the most likely outcome, but what it does mean is that the scenario is clearly a worry for business and investors alike. And moreover, that the uncertainty that continues to exist on what the final arrangements is by far the biggest negative weighing on Sterling.

Clearly any break through on the negotiations that makes a comprehensive UK/EU deal look like the most likely outcome would relieve a great deal of selling pressure currently bearing down on Sterling.

But the very nature and complexity of these negotiations mean that it is unlikely that positive news will be forthcoming until almost the eleventh hour of the negotiations.

What then does that all mean for Sterling and especially against the Euro?

We judge the Pound is set for an continuing period of weakness and a level close to parity with the Euro seems highly likely during this prolonged period of uncertainty.



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