

15th March 2019



Market Update:

Is Cable going stronger?

UPDATE
Technical
Fundamental





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MONTHLY CHART

The very long-term big picture is clear: there is massive resistance above the market in a band from 1.35 to 1.4060.

Only a confirmed break above 1.4340 would convince the bulls that the market was set to go further.



DAILY CHART

Short term the market is trading – with growing volatility - within the trading range established over the last eight months.

Only a confirmed SHORT-TERM break above 1.33 would convince sterling bulls that the range had been broken.

FUNDAMENTALS:

The Pound, especially against the Dollar has been a hostage to BREXIT ever since the result of the 2016 referendum was known.

As the negotiations between the UK and EU swung from optimism to pessimism, so too has the value of Sterling. During this period the UK economy has steadily cooled and for much of that time the US and Euro zone economies had remained strong, placing further downward pressure on Sterling.

But in recent months the Euro zone economy has noticeably slowed as well, so much so that the ECB has amended its policy stance.

In the US too, the economy has showed some signs of emerging weakness. And with the trade dispute between the US and China remaining unresolved and domestic US inflation remaining contained, the Fed has paused its intended program of interest rate hikes.

Ordinarily, a period of UK economic weakness, accompanied by above target inflation, would prove a double negative for Sterling. However, the focus for traders of Cable have been less on economic data and more on BREXIT.

Over recent days the UK Government has again failed to extract meaningful concessions from the EU over the contentious Irish border backstop mechanism and so Parliament has again rejected PM May's EU Exit deal primarily for that reason.

In an attempt to avoid a no deal exit, which would cause economic damage to the UK, Parliament has voted to rule out leaving the EU without a deal and to seek an extension to the March 29 "BREXIT" deadline.





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FUNDAMENTALS: CONTINUED

As these most recent events have unfolded, Cable has continued to endure a degree of volatility, but the underlying direction of travel has been bullish, but why you might as given the continuing high degree of uncertainty.

Traders have clearly taken the view that some how the UK will secure an exit agreement with the EU. The significance of such cannot be over stated. An exit deal would mean minimal interruption of trade and minimal damage, if any to the UK economy. Moreover it would allow negotiations to move on to the next and arguably much more important stage; the future trade relationship between the UK and EU.

In the current period of flux and uncertainty, business is naturally reluctant to invest. Foreign owned businesses are planning to relocate out of the UK, but with a deal, business would regain confidence.

That confidence is currently missing, but with its return, business would resume investing and planning for the future and foreign investment would likely pick up.

Clearly uncertainty still reigns, but as we approach the March 29 dead line that cloud will lift either through an agreed deal or the UK crashing out of the EU, but the direction of travel would at least be clearer.

One route; the agreed deal rout would see Cable rally hard as that all important confidence returns. The other would see Cable weaken further.

Our expectation is the EU will agree a limited extension and a deal will eventually pass through Parliament. The Irish backstop is meant as an insurance policy, once a new trade relationship between the UK and EU is agreed it would be redundant, if the BREXIT hard liners and DUP can see that then the deal could pass and Cable rally.



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