MONETARY SCENARIOS

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Global Monetary Viewpoint

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SUMMARY

The seven per cent jump of the pound in a few days, based on a sudden violent change in hedging positions, is not without precedent.

The key question is whether fundamental forces have changed in a way likely to ratify that movement. In the case of the pound today, the answer here is negative.

The capitulation to EU demands, to secure a Withdrawal Agreement and avoid a "no deal exit", leaves a perilous path ahead both economically and politically for the UK.

Optimism that the UK can secure a Canada-style FTA has no firm basis. An FTA deal without services for the UK economy is arguably worse than no deal.

The fading away of any prospect of a US deal before 2021 with UK is a serious blow to Brexit.

GBP leap on unwind of no deal hedges now vulnerable to UK-EU FTA reality show: CAN$ election-time spurt also transitory

The (around) 7% climb of the GBP against the US dollar, in the week to October 18, is an example of one of those short violent moves in currency markets triggered by a sudden news-driven change in speculative or hedging strategies.

The resulting massive one-way demand, for the given currency, overwhelms the influence of investors who base their evaluations on long-term assessments which have hardly changed or even moved in the opposite direction during the stampede. Many such investors, before they act to take advantage of the probable overshoot, need to gain confidence that the stampede is at an end, rather than gathering more force.

Invitation from Dr. Brendan Brown

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