

The pound surges against the US dollar

I am not going to claim the pound has risen in recent months against the dollar because of Brexit. It is up by 10% from the lows. I am sure anti Brexit commentators would have been full of how it was a result of Brexit if we had fallen against the dollar. Recent events remind us that the main forces shaping leading currencies have nothing to do with our vote. Sterling often sits somewhere between the Euro and the dollar, reflecting our substantial trade with both sides of the Atlantic, and our monetary policy which is also currently mid way between the two. We are witnessing a big move in the value of the Euro relative to the dollar.

So why is the dollar falling and the Euro rising? The Euro is strengthening because markets think the European Central Bank next year will have to tighten monetary policy and stop buying up so many bonds with created money. Meanwhile markets have revised their view of how quickly the US will move up interest rates, presently concluding no further increase is likely this year. There are spare places to fill on the Fed's Policy Committee, where Mr Trump is likely to push for more dovish participants. Meanwhile Mr Draghi at the ECB is under German pressure to reduce the stimulus that Bank is pumping into the Euro area economy.

The Japanese authorities are still trying to keep their currency down. They plan to carry on with a large programme of money creation and have pledged to keep their ten year borrowing rate at zero, which makes it cheap for the state to spend more than it raises in taxes. The pound fell against the yen after the vote and has now risen back almost to where it was before. It is up from an October low of 126 yen to £1 to 143 yen.

So out of the big four reserve currencies used as SDRs, the dollar is the weakest and the Euro the strongest for the time being. Sterling and the yen lie in between, with sterling the recent stronger of the two. The recent move will help US and UK exporters to the EU, and hit EU exporters to the US. Mr Trump is having his way so far in the currency market, as he wanted a weaker dollar after a long period of dollar strength. Mr Draghi at the ECB has a new dilemma thanks to these changes. He does not want a stronger Euro as he is still trying to boost both inflation and output. A stronger Euro limits price rises and makes exporting more difficult.