The Pound Is ‘Very Cheap’ for This Currency Strategist

by Anooja Debnath and John Ainger.
April 27, 2017

(Bloomberg) The pound rose to its highest level since October versus the dollar, which faltered after investors cited a lack of clarity in tax plans unveiled by President Donald Trump’s administration.

Sterling advanced for a third straight day to test the psychologically significant 1.2900 USD/GBP level against the U.S. currency. Demand from interbank investors triggered stops above 1.2905 USD/GBP, according to a trader in Europe who asked not to be identified as the person isn’t authorized to speak publicly. The currency has advanced almost 3% since Prime Minister Theresa May announced snap elections earlier this month.

“It’s a general dollar move because of disappointment about President Trump’s tax plans,” said Stuart Bennett, a G-10 currency strategist at Banco Santander SA in London. “Equally, it’s still against a background that the pound is very cheap. There is probably more of a bias when the dollar weakens and everybody moves against the dollar and the pound can maybe outperform.”

There’s a “lot of downside bets against the pound, and in this current environment -- either in the U.K. side ahead of the election or the U.S. side, there’s probably more reason to take profit now and then maybe sell later,” Bennett said

Yield on 10-year gilts was little changed at 1.07%, while yields on 10-year US Treasuries increased to 2.295%.

With respect to the euro, the pound also rose, jumping 0.6%, closing at 1.1856 EUR/GBP. The pound also moved up against the yen by 0.5%, closing at 143.50 JPY/EUR.

The FTSE midcaps bore the brunt of the selloff in the aftermath of last June's Brexit vote but have since staged an impressive rebound, up more than 30 percent since from lows and hovering near all-time highs.

Any slowdown in growth resulting from a pullback in consumer spending, however, is likely to be felt more acutely by smaller firms such as retailers and industrial companies that operate largely within the UK.

"With rising inflation, real earnings are flat over the year and will likely turn negative, while the savings rate is already low, leaving little room for higher spending," Valentin Bissat, senior strategist at Switzerland's Mirabaud Asset Management said.