The rise of the pound

In the first two months after our exit from the single market and customs union, the pound has risen against the dollar, the Euro and the yen. It is up by 3.6% against the dollar and Euro , and by 8.6% against the yen. In the referendum campaign I rightly criticised the silly pessimism of Remain forecasters saying there would be large falls in GDP immediately after a Leave vote, a collapse in house prices and a surge in unemployment. On sterling I merely said that the pound would doubtless continue to fluctuate once we had voted to leave as surely as it had varied widely during our period in the EU. I thought relative interest rates, QE rates, dollar money policy and the other usual issues would have more impact on the pound than Brexit. So it has proved.

Today the pound is at the same level against the dollar and the yen as it recorded before the referendum vote, a time when the establishment and market view was that Remain would win. It would not have been easy to forecast that the pound should now be exactly where it was against the dollar and yen after a Leave vote and after exit given the elapse of time and the many other influences and variables involved. It should worry Remain forecasters that their one remaining gloomy forecast of a big fall in sterling has not proved to be right either. The pound is down by 5.5% against the Euro over the same time period, as the Euro has appreciated against the dollar and yen.

The future of the pound is never easy to forecast given the huge volumes of currency transactions and the differing money policies of the USA, Japan, the Euro area and the UK. We seem to be living through a current period of dollar weakness, probably reflecting the very loose money and fiscal policy being pursued in Washington. The rise this year so far in sterling will help limit inflationary tendencies on all those imports and will make exporting a bit more difficult. What is interesting is that in the first two months of exit sterling has risen against all major currencies including the Euro.