

Market Insights & Strategy

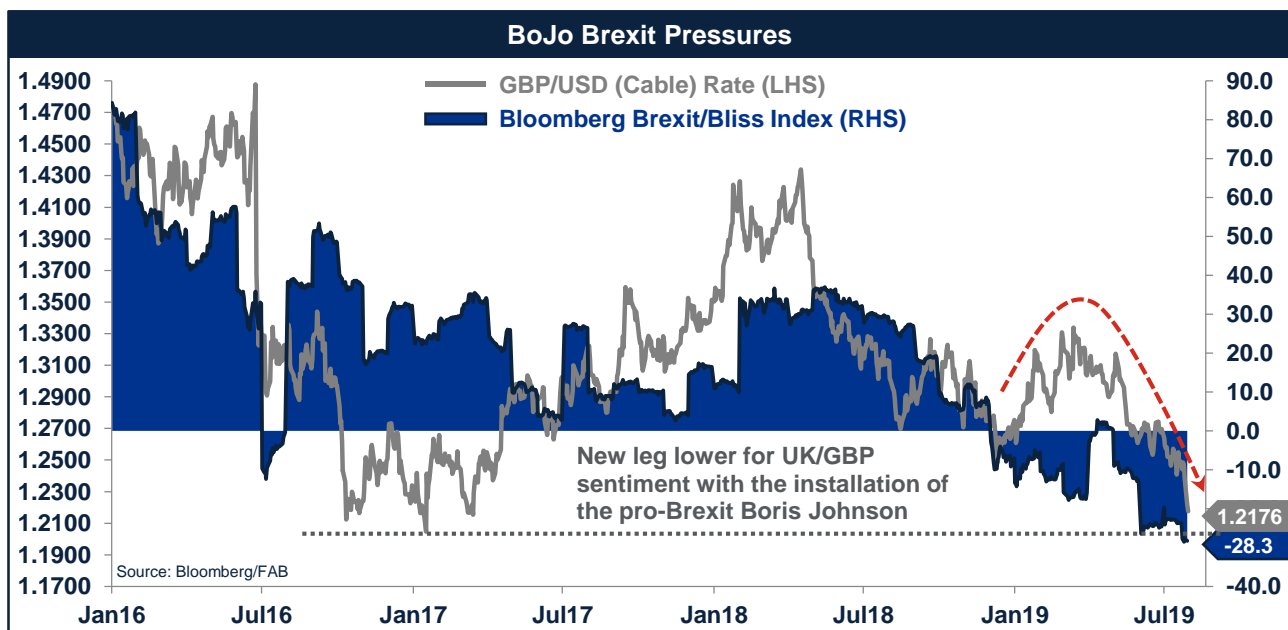
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Simon Ballard
Macro Strategist

Macro Strategy

Thoughts on GBP post Monday's plunge

- GBP plunged on Monday and is now trading at its lowest level in around 30 months. Consistent selling pressure has pushed cable (GBPUSD) down to \$1.2219 (-1.34%) on Monday, and the currency fell further on Tuesday to trade around \$1.2176, a level not seen since Q1 2017.
- The currency touched a low of \$1.2068 on January 16, 2017 according to Bloomberg data and if we were to break below that in the coming days we would be back into territory not seen since the time of the Live Aid concert; July 1985.
- With the installation of the pro-Brexit Johnson administration in 10 Downing Street last week and the frequent reference by government ministers in recent days to the need to prepare for a 'no deal' scenario if a new, mutually acceptable withdrawal agreement cannot be agreed, investors are now waking up to reality.



- A 'no deal' Brexit is clearly more than just a bargaining tool, it is a clear and present danger and the Boris Johnson government is not afraid to go down that path. They are committed to taking the UK out of the EU by the October 31 deadline, with or without a deal. We fear it will be without.

- We have long stated our belief that a 'hard Brexit' could be the only viable outcome from this political impasse. Consequently, since earlier this year when cable was trading above \$1.3000 we had stated our belief that the currency would trade toward \$1.2000 before it would trade back up above \$1.3500.
- We expect this latest currency weakness to persist, perhaps not in linear fashion, but certainty in terms of the overall direction of trading as we approach the October 31 deadline. The January 2017 low is now easily within reach again.

Simon Ballard
Executive Director & Macro Strategist

Market Insight & Strategy

FAB Global Markets

Tel: +971-2-6110012

Mobile: +971-50-9332806

Email: Simon.Ballard@bankfab.com

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