



What has happened to sterling after Brexit?

Immediately after June 23rd the value of the pound fell almost 15% against the US dollar and has since fallen in a similar amount in total against the euro. The markets were not expecting a Leave result and were taken by surprise – something traders don't like!! The markets are now waiting to see what the UK's new trading relationship will be with the EU and the rest of the world.

Has anything like this happened before?

The nearest similar event in recent memory was in September 1992 when sterling left the European Exchange Rate Mechanism unexpectedly. Sterling fell around 14% against the Deutschmark in a matter of days, and at that time much of the UK's door and window hardware came from Germany so currency surcharges were applied almost immediately – as in 2016.

How bad is it?

It depends which currency you compare it with, for example:

US Dollar - Sterling has only been this low once before (1985) and within 12 months was back above \$1.40 where it has stayed ever since. So against the dollar it is by far the worst rate for over 30 years.

Euro - Sterling is still stronger today than it was against the euro in 2009/10 and 2013/14. So against the euro this is not so unusual.

All currencies - Against the so called trade weighted basket of currencies sterling has fallen by approx. 9% since June 23rd, but is still 10% stronger than in 2009 and around the same as the average for 1992 to 1996. So again, not so unusual historically

China – most imports from China are priced in US dollars so the dollar rate is much more important now than any other for the door and window sector. It is because sterling is at such a low point against the dollar that UK prices for Chinese goods will have to go up.

Euro stats

We often talk about the euro – forgetting that before 1998 the Eurozone countries all had their own currencies. So looking back over the last 35 years how have these countries compared to sterling?

Germany – Their currency is now 120% stronger against the £ than in 1981

France - 14% stronger

Italy - No change

Spain - 12% weaker than sterling

Greece – 75% weaker

Massive variations – and perhaps a clue as to why Greece has struggled since it joined the euro, prior to which the drachma steadily fell in value keeping Greek made goods and tourism competitive.

As a comparison, the US dollar is 82% stronger now than it was against sterling in 1981.

What next?

Recent history tells us that in the absence of political uncertainties sterling would probably be 20% stronger against the US dollar than it is today, and would strengthen a similar amount against the euro in all likelihood. However, it would be a brave man indeed that would bet on this happening anytime soon – unravelling Brexit will take years and no one yet knows whether the UK and the EU will play nicely or both take their bats home!! So don't expect dramatic change in the short term.

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