

Bye, Bye Boris

The financial markets continue their rollercoaster ride.

Last week, the Euro slid to a 20-year low against the Dollar so despite all the shenanigans at Westminster, the Pound finished the week at a 2-month high against the single currency.

However, with up to 16 candidates expected to 'put their hat into the ring' to become the next Tory leader and therefore Prime Minister, the level of political uncertainty should only increase in the weeks and possibly months to come until a new PM is in place.

For those like me old enough to remember the ousting of Margaret Thatcher in 1990, the former Chancellor Rishi Sunak might be the current bookies favourite to replace his old boss Boris Johnson but I for one would not be at all surprised if the Tories look elsewhere for a successor.

As for the immediate outlook for the Pound, the level of political uncertainty when added to the cost of living crisis with the UK inflation rate at 9.1%, a 40-year high and the Bank of England still signalling possible further interest rate rises plus the ongoing war in the Ukraine, it's hard to see how and why the Pound should continue to strengthen.

A bigger possibility is to see further Euro weakness due to fears over the outlook for the German economy if Russia does totally stop gas supplies. Germany is completely dependent on Russian supplies not just for domestic heating but to also power its industrial and manufacturing base.

In addition, the yield between German bonds and those of the likes of Italy and Spain have widened to a 2-year high and only last month Italy's 10-year bond yield went above 4%, a level not seen since 2014 raising fears of yet another euro zone debt crisis this autumn.

With both the Pound and the Euro under pressure amidst so much uncertainty, not surprisingly demand for the Dollar continues at very high levels.

Last week not only saw the Dollar hit a 20-year high against the Euro but also hit a 28-month high against the Pound.

Of course, currency market volatility can bring trouble but with careful monitoring can also bring opportunity.

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This week's quote is an old favourite of mine from Albert Einstein "We cannot solve our problems with the same thinking we used when we created them."