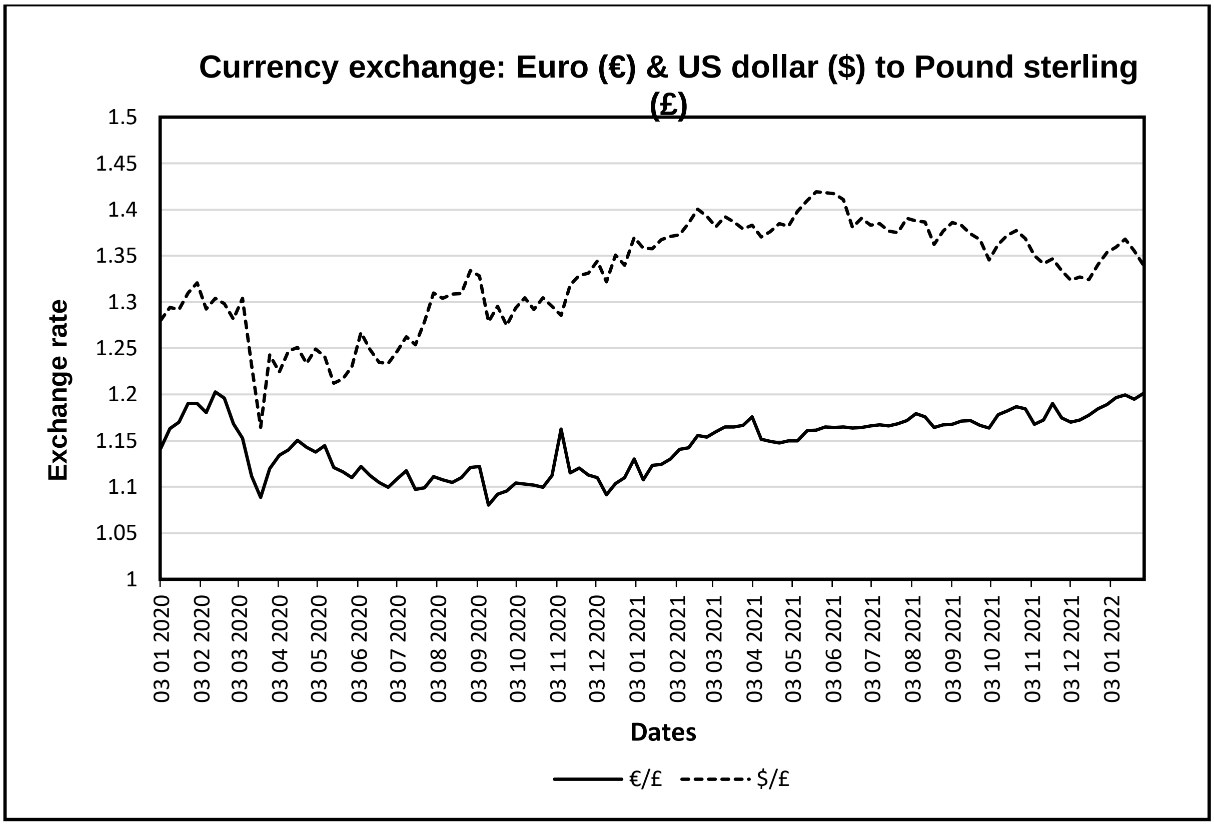
Currency & Exchange Rates v2

The information contained in this report has been researched and compiled by Knud Møller at KVM Research. If you want to know more please look at my website www.kvmresearch.co.uk, give me a ring on 01782 499384 or send me an email on knudvmoller@gmail.com.

Introduction

The graphs in the diagram below represent the development of two major currencies, the Euro (€) and the US dollar ($) month by month from the beginning of 2020 until and including early April 2022, a period dominated by the fight against COVID 19 until February 2022 when the war in Ukraine became the dominant issue.

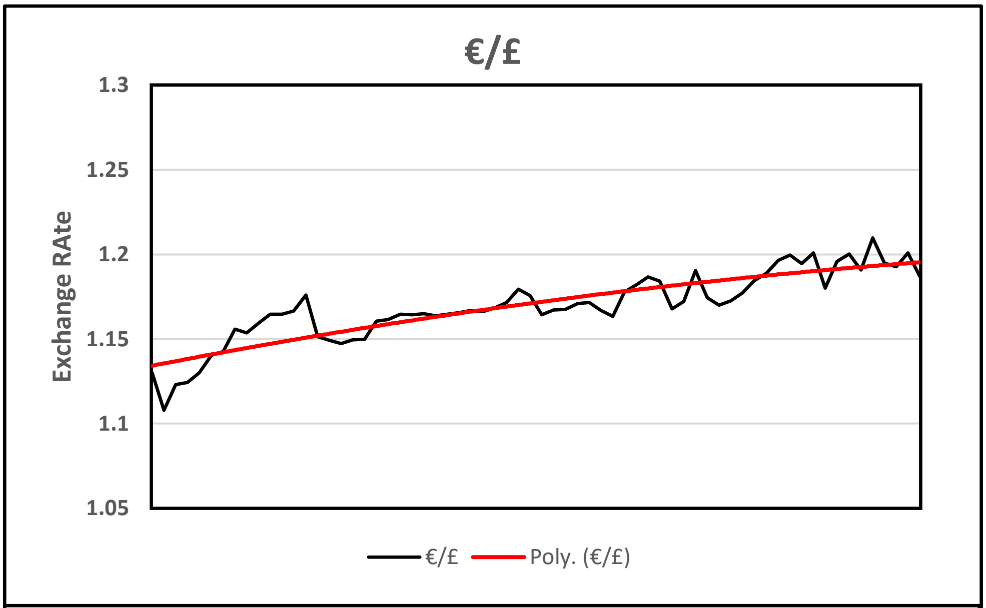
A low point for the value of Pound Sterling was reached in late February – early March 2020 when it fell from €1.20 ($1.30) to €1.09 ($1.16) in just four weeks. Since then it continuously gained strength against both the US dollar and the Euro.

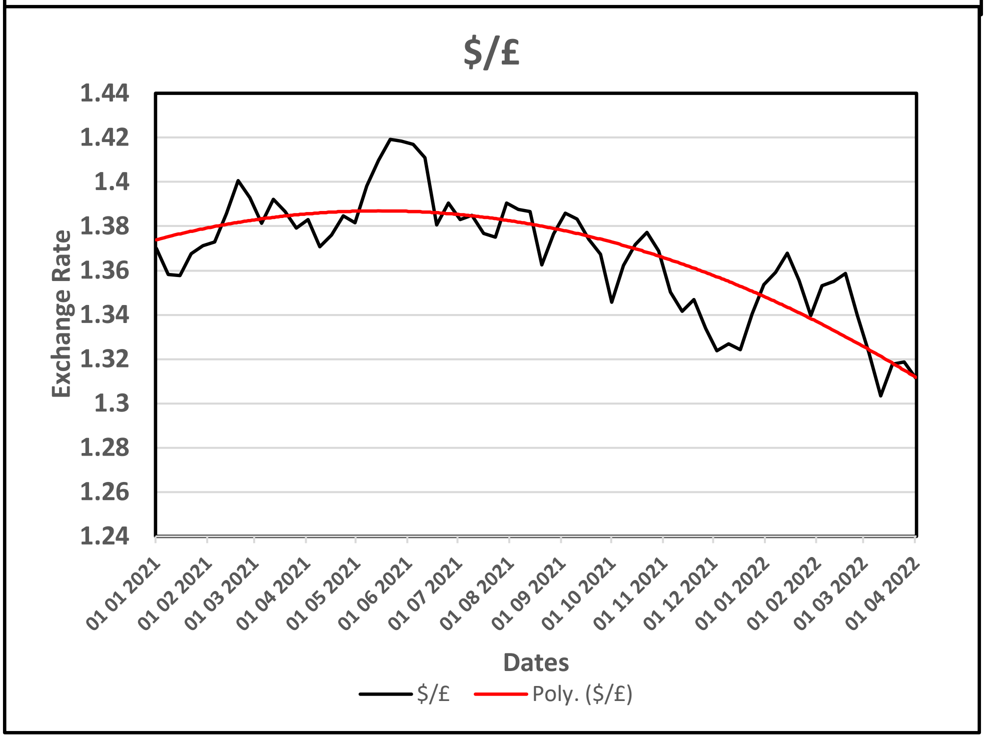


Meanwhile a new president of the US, Joe Biden, was elected in November 2020 and assumed office on the 20th of January 2021. After that the Pound Sterling continued to gain strength for another few months until May 2021. Thereafter the Pound seems to be losing ground against the US dollar (the dollar is strengthening) while it slowly continues to gain strength against the Euro.

The value of this exercise lies in a general interest in seeking to illustrate how the value of currencies has changed in response to major political events such as Brexit, the US presidential elections, and other events that has shaken national governments and the foundations of our societies to the core (COVID-19).

The outbreak of the War in Ukraine may be an event of such magnitude, but at the time of writing (6 weeks after the beginning of serious hostilities) it has had no discernible effect on these statistics.





In a previous version of this document it was noted how the different policies pursued in the USA, the European Union and the UK may have led to divergent trends in the value of the Pound Sterling relative to the US dollar and the Euro. By contrast we now notice a convergence which may be an effect of the policies pursued by the new administration in the USA following the change in early 2021.

It would be hard to tell whether it was an effect of any one individual of these events or a combination of two or all of them, that at this time caused a considerable slump in the value of Pound sterling. Whatever the reason, after that date an interesting divergence between the value of the Euro and the US dollar has opened up.

From the diagram above it is noted that relative to the Euro (€) the Pound sterling has remained quite stable from the beginning and all through the year 2020 until recently. By contrast the Pound sterling relative to the US dollar has become steadily more expensive so that £1 has increased in relative value from $1.15 to $1.35 early in 2021.

The reader will recall that Mr Trump was the de facto president for all of the year 2020 until the 20th of January 2021 even after the election of a successor in November 2020. One will also recall that he pursued some controversial policies which included trade protectionism, tax reforms, dismantling of Wall Street reform and a Consumer Protection Act not to forget engaging in a trade war with China. It will also be true that Mr Trump's involvement in tackling the COVID-19 pandemic that has done so much damage to the US economy was less than half-hearted.

On the 11th of February 2021 the Daily Telegraph carried the headline: "Why sterling is set to hit $1.45 this year" and commented further: "Sterling has started 2021 with a bang, smashing through the $1.38 mark against the dollar to its highest level for almost three years with analysts predicting it will keep rising past the $1.38 mark reached this week." However, on the background of the policies pursued by the USA in recent years and Pound sterling's stability against the euro it would seem more reasonable to attribute this rise to the weakness of the dollar rather than the strength of the sterling.

Whatever the reason for this weakness, it may be advantageous for US exports, but it will be a problem for those who wish for a US-UK trade agreement to partly replace the protection previously offered within the EU.

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