Irish stocks and sterling plummet on Brexit confusion

Irish stocks were the worst hit in western Europe on Thursday after political chaos in the United Kingdom caused sterling to plummet the most in more than 17 months.

The Iseq overall index fell 3.75 per cent while European peers such as the Cac 40, Dax and FTSE 100 closed between 0.06 up and 0.7 per cent down. “We’d expect volatility to persist,” said Goodbody senior trading strategist Jerome Kavanagh. “It was particularly bad for Ireland because liquidity is not there in the same way it would be in the UK market,” he said, adding that five stocks accounted for about half of the fall in the Iseq because of the way it is weighted.

Those stocks included companies with significant UK exposure such as Bank of Ireland and Ryanair which dropped 7.88 per cent and 6.59 per cent per cent respectively.

They fell on the back of a slump in sterling caused by a string of resignations in the UK cabinet and a letter of no confidence in UK prime minister Theresa May issued by arch-Brexiteer Jacob Rees-Mogg.

A fall of more than 2 per cent against the euro left sterling on course for its biggest drop this year, a move likely to cause fresh chills among Irish exporters who are already in flux as Brexit plans fall into chaos.

In a statement on Thursday evening, the Irish Exporters’ Association (IEA) cautiously welcomed Wednesday’s Brexit deal but called on the Government to step up its “no-deal” planning. “Whilst we acknowledge the considerable work done by the Irish Government to date and the European Commission’s recent publication of a number of no-deal contingency plans, in light of the developing political chaos in London we therefore call on the Irish Government and EU to step up their no-deal contingency planning to ensure the necessary supports are there for Irish Exporters and Importers in the event of a would-be crash-out Brexit, said IEA chief executive, Simon McKeever.

Volatility kicks off

Sterling volatility kicked off on Wednesday after UK Brexit secretary Dominic Raab resigned, with further UK cabinet departures helping the currency to in its decline. By Wednesday evening, it was about 2 per cent weaker at 88.8p.

“We were surprised how strong sterling had been based on a deal where the main hurdle was going to be getting it through parliament rather than getting it through the cabinet,” said Davy chief economist Conall MacCoille, adding that a no-deal Brexit is “back on everybody’s radar”.

Bank of Ireland head of FX strategy, Lee Evans, said: “There’s no end in sight and the various different probabilities at the moment lead to further sterling volatility so it’s hard to see a clear path to success for the negotiations”.

“From here, there’s really three scenarios for sterling weakness. First is the leadership challenge . . . second is the likelihood that the withdrawal agreement won’t make it through parliament and the third one is time. Time is no longer on Sterling’s side,” Mr Evans added.

In London, the FTSE finished flat, despite punishing drops in stocks seen as having most exposure to the domestic economy, such as banks and housebuilders.