

'Reduced risk of no-deal Brexit reflected in steady value sterling'

Currency is the first financial responder to political events, and while many predicted that sterling would fall after the vote on the Withdrawal Agreement in the House of Commons last night, the pound gained in value.

Lee Evans, Head of Foreign Exchange Trading on the Bank of Ireland Global Markets team, said it might be counter-intuitive that sterling rallied but the probability of the UK leaving the EU without a deal has reduced, and that is reflected in the value of the currency.

"The deal now has been firmly rejected but the probability of some form of extension to Article 50 or a soft Brexit outcome has risen, and that has been reflected in the value of the currency," Mr Evans said.

"We feel the risks have moved from a one-sided significant sterling weakness to the possibility of a significant move in either direction."

2018 saw the smallest trading range in euro/sterling since before the crisis. The Global Markets team at Bank of Ireland expects currency volatility to pick up this year.

Businesses here have been urged by the Irish Exporters Association to implement contingency measures in the event of no-deal.

Mr Evans said Bank of Ireland has been working very closely with exporters since the vote in 2016 but as the narrative has changed, it sees the risk as two-sided now. "We are very aware of importers who have benefitted from sterling weakness over the last while. We think it is time for them to be vigilant at the possible appreciation of sterling which is heavily under-valued due to the Brexit vote and negotiations."

He said the bank is a little bit more optimistic of a positive sterling outcome, it is not complacent by any means.

"Our message has been consistent: take that currency risk out of your business. We are advising customers who are taking a 'wait and see' approach to talk to us about their hedging requirements in the bank."

The bank has increased its unsecured FX fund from €20 million to €50 million to support its customers.

Should Irish business take comfort from the currency's docile reaction to the outcome of last night's vote? Mr Evans said if the UK government survives the vote tonight, there is the possibility of cross party negotiations which opens up the possibility of a softer Brexit and reduces the possibility of a no-deal scenario.

He said the threat of Britain leaving the EU without a deal has not gone by any means, "but the chances of that reducing should be reflected in markets and should see sterling gains".