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EUR and GBP long term technical patterns
EUR set to slide, even against GBP

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The Technical Picture

Whether it is the bearish pattern in EUR/USD based on the idea of a rough mirror image unfolding around the origin in 2001 at the low for the EUR; the series of repeating structures in EUR/GBP favouring the continued trend of GBP outperformance; or the pattern in GBP/USD predicated on the idea that the market is about to enter the last bear phase of a parabolic bull/bear cycle that started in 1985, the conclusion is that we may see a strong rally in the USD this year, with the EUR underperforming GBP.

Read on to observe three long term patterns that provide a potential framework of the expected evolution of these currency pairs for the remainder of the year.

We conclude with strong fundamental arguments why in the monetary race to the bottom, euro is set to slide – even against the pound

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EUR/USD* Time Series 1980 - present

*Prior to 1999 DEM used as proxy for EUR

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EUR/GBP* Time Series 1971 - Present

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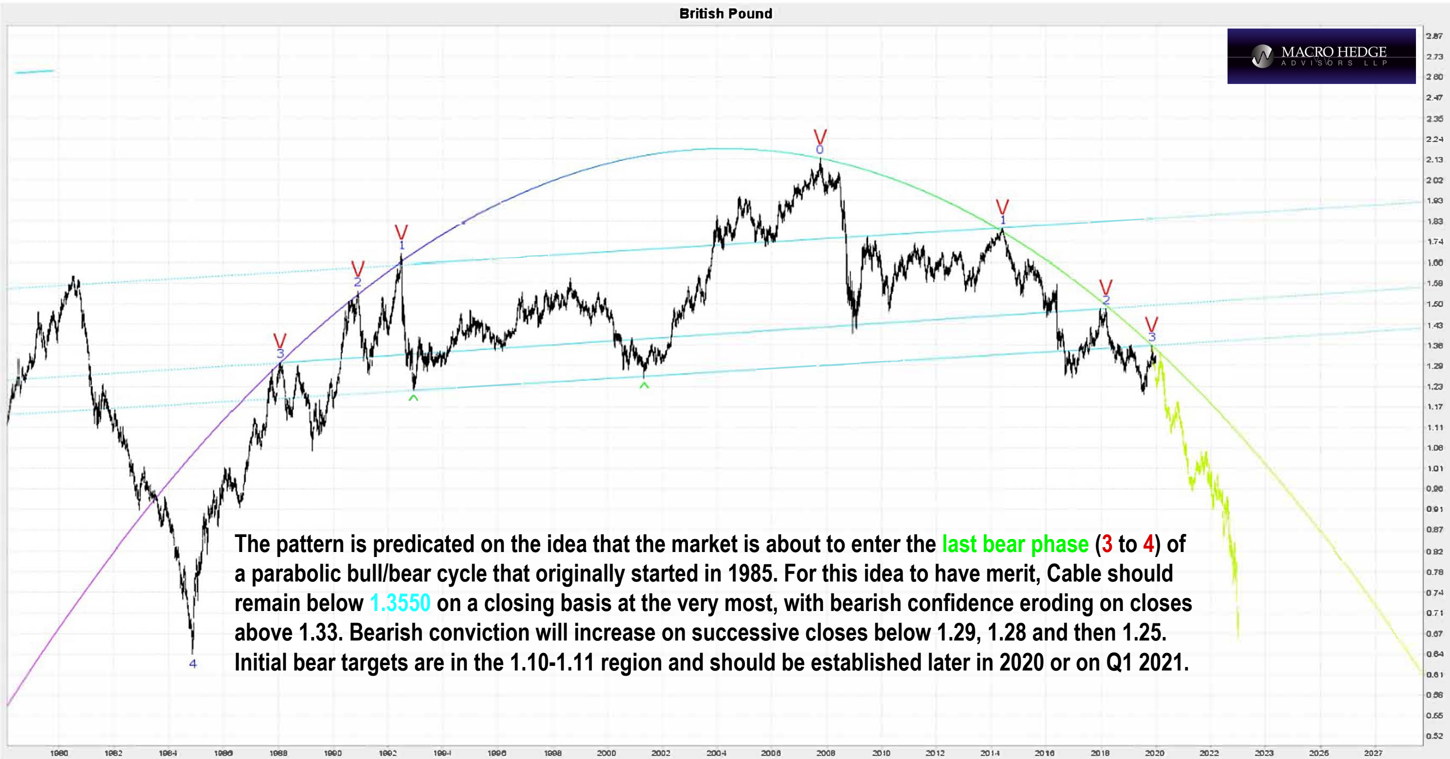
*Prior to 1999 DEM used as proxy for EUR

GBP/USD Time Series 1978 - Present



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The Fundamental Picture

In monetary race to the bottom, euro set to slide – even against the pound

The medical emergency in China has proven to be the catalyst to expectations of a further round of monetary "stimulus" around the world. This sets the scene for a move lower in the euro. Yes, the monetary hegemon, the dollar, is also subject to such expectations. But the potential radical nature of the shift is greatest in Europe. Why? Because the ECB under Chief Lagarde have their backs to the wall in an existential sense. They fear that an economic downturn in Europe would be fatal to the European Monetary Union. With interest rates already negative, what more could the ECB do to stimulate recovery. So better to act pre-emptively.

A recession and more general financial bust in Europe next round would not find a saviour in the form of the Obama Administration, whose backing of massive IMF loans into weak European sovereigns last time round rescued its monetary union (by making it politically feasible for Berlin to fully back rescue plans). Widespread hopes and forecasts late last year that the euro-zone was starting to recover from an 18month manufacturing slowdown and recession have been dashed by fear of Asia's economic setback now bringing about a double European downturn.

It is improbable that the Lagarde ECB will resort to driving money rates further into negative territory, but it is highly probably that it will step up QE in various forms already in the second quarter of this year. QE will fit well with objectives of German government – set to increase Green-related expenditures and also wary about having otherwise to replace British net budgetary contributions (to the EU) from 2021 onwards. Expect Green bonds and EIB bonds to be part of the next big QE operations.

By contrast pre-emptive Fed monetary stimulus beyond the 25bp cut already built in appears highly implausible unless recession actually knocks at the door. The Fed did resume a form of QE late last year towards stabilizing the repo-rate, but amidst an economic slowdown through this year the underlying tightening of conditions in the reserve market could well reverse itself without continued monetary interventions proving necessary.

In the monetary race to the bottom the pound is nearer the euro than the dollar. The Johnson government has no interest at all in any sound money principle. The intent is fully to use the central bank as an agent of finance in the driving ahead of huge mega projects, most of all the high-speed railway to the North. And if as is likely trade negotiations with the US and EU go into a slow lane of partial agreements first, that is not good news for UK economic renaissance – nor is the likelihood of some continued regulatory alignment between the UK and EU. And the UK is in many respects as highly geared on the Asian epicentre of this cycle's boom and asset inflation as are other European countries (and much more so than the US). Yet there is not an existential issue in the pound's future (unlike for the euro); and a Conservative government with a huge majority could look to many global investors as an island of stability especially once a Green-CDU partnership comes into power in Berlin

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