Where next for the pound and euro?

Rosalind Koppang Treasury

After a brief foray down to $1.43 early in the month, Sterling has spent most of June climbing steadily back up. It overshot $1.51 initially and is now sitting comfortably above the $1.50 barrier. The trend looks promising and – it might be tempting fate – but we could see a return to the $1.60 level during the next 6 months. Why? Despite all the hype from trade unionists and the threats of massive strikes, the public generally accept the austerity package is necessary. Fears of a double dip in the economy are valid and BP could also cause a blip. However, industry in the UK is very flexible. Falling trade with the EU will be filled by focusing on emerging markets in Asia.

The euro is a tad tricky. The US economy is weak, but then so are many economies in the euro-zone. Unless the strongest economic member, Germany, decides to leave the euro, the current problems caused largely by the economies of Southern Europe are likely to remain. So which currency weakens most? I generally favour a weaker euro. However, it is a question of timing. Greece is likely to reschedule its debt, but that may not happen until 2011. On the assumption that Germany does not throw in the towel first, the euro could well survive this current panic and recover a little. The currency started the year at $1.43 and hit a low of $1.19. Current market forecasts for the next 6 months vary from $1.10 to 1.40. Whilst we may certainly dip again to $1.10 on panic sales, I suspect that in 6 months' time before problems rise to critical, the euro will be around $1.25 – which, if assumptions on sterling are correct, could put the euro on-track for around 78p (or a pound worth €1.28).

The Australian dollar suffered badly in May from a poorly thought-out foray against the mining companies and the risk-aversion that arose from European sovereign debt issues and the fear of China's economy slowing down. The currency recovered during June from a low of US$ 0.8060, hitting US$ 0.8860 before dropping back around 4 cents. The new Prime Minister is resolving the mining tax issue, leaving the economy to swing along at a fairly satisfactory rate. The Chinese are still investing heavily in Australia and the currency could easily recoup the US$ 0.88 level at some point during the next 6 months. But it is skittish and extremely vulnerable to any ripples on the Chinese horizon or a resurgence of risk aversion.

Update on UK Housing

Stuart McIntyre Property

Looking at the latest data on house price growth, you could think that the housing market is getting back to normal. Repossession, plummeting house prices and negative equity have not been as dire as forecast in 2008. According to Savill's latest report, this is deceptive. Transaction volumes, as well as lending volumes, remain at historic lows. While low interest rates make mortgages affordable, the difficulties for many in actually obtaining a mortgage have never been greater.

In the mainstream market, demand is starting to falter amid rising fear of a double dip in the economy. House prices are higher on an annual basis (and off a low base) but the rate of price growth has slowed and could possibly turn negative towards the end of this year and into 2011. As usual, London has to some extent bucked the trend. Prices have been supported by foreign investment as a result of sterling's relative weakness earlier this year and an appetite for real estate assets in top world locations.

Private Client Services in IDB London

Eyal Davidov Private Banking

In June, IDB London hosted a Breakfast Meeting at the Jumeirah Carlton Tower Hotel. Over 100 distinguished clients gathered to hear our guest speakers, the Ambassador for Israel, His Excellency Ron Prosor and the Chairman of IDB Group Dr.Yossi Bachar (former Director General of the Finance Ministry in 2003 and the man behind Israel's major capital markets reforms). This event forms part of IDB London's commitment to enhance our clients' banking experience with us and to provide personal access to leading world figures on a regular basis. If you would like to be kept informed about future events, please let us know.

The Private Banking team is constantly expanding its services and products. Apart from full equity brokerage and fixed income services, we can give you access to mutual funds managed by top-tier houses, such as Legg Mason, BlackRock, Franklin Templeton and Fidelity, top of the class hedge funds, structured notes issued by leading banks, money market instruments, FX capital and non capital-protected instruments and much more.

For further information, please give us a call on:
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privatebanking@israeldiscountbank.co.uk
and we will call you.

New Contacts!

Eyal Davidov Private Banking

The Private Banking unit in London is pleased to welcome Moshi Kahtan to the team. Having previously worked as a spokesman for the Israeli Embassy in London and an organiser of marketing campaigns for various charities, Moshi brings rich experience in business development and very strong ties to the Jewish community in the UK. We are confident that his addition to the team will strengthen even further our services to our Private Banking clients. Moshi is on + 44 (0) 207 408 4953

IDB London would also like to announce the appointment of our new representative for the London office in Israel. Tal Stern has been with IDB London for several years and has the experience and knowledge to represent all business activities of the branch.
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