Trade Idea – Foreign Exchange
Sterling to suffer as Brexit back in focus
15th April 2016

Campaigns begin

- Following the selection of “Vote Leave” and “Britain Stronger in Europe” as the official campaigns for June’s EU referendum, the build-up towards the highly controversial vote will now truly get underway. Market commentators and media pundits will increasingly pay heed to any change in public voting intentions, and political stories will be scrutinised for any sign of weakness from either campaign. The GBP has already fallen victim to the uncertainty associated with the referendum, falling just over 7%* on a trade weighted basis year to date (see Figure 1). Increasing coverage of the vote in coming weeks will likely see the GBP exhibit elevated levels of volatility and may cause further moves to the downside. Any signs of short term strength will provide good opportunities to establish tactical short positions in the GBP, particularly against the US Dollar which should receive support from resilient economic data.

Figure 1

![Graph showing Sterling declines in 2016 and Shorts continue rising.](image)

Source: Bloomberg, ETF Securities

Uncertainty clouds fundamentals

- The latest Monetary Policy Committee (MPC) minutes made specific reference to the potential “referendum effects” in the short term that could cloud the interpretation of macroeconomic indicators in coming months. Uncertainty will remain the dominant theme ahead of the referendum, likely making sentiment, rather than fundamentals, the key driver of Sterling moves in the short term.

Short positions continue building

- Latest market positioning data shows that currency speculators have continued to build short positions against the GBP, with the total outstanding short contracts reaching the highest level for around three years (see Figure 1). The option market also reflects a similar story, with a record level of investors purchasing protection against downside movements in the Sterling. This suggests that unless there is a fundamental shift in polling results, risks to the Sterling would continue to be skewed to the downside.

*All figures quoted are sourced from Bloomberg unless stated otherwise.

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