

British pound plunges amid COVID mutation and Brexit fears

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London, December 22 (RHC)-- Concerns about a new strain of coronavirus in the U.K. drove the British pound to its biggest loss since March, though the currency pared much of the loss after Prime Minister

Boris Johnson made another offer to salvage Brexit talks. Sterling tumbled 2.5% to as low as \$1.3188 before recovering most of that in New York afternoon, down only 0.4% to \$1.3475 as of 3:25 p.m.

Investors were spooked earlier as another Brexit deadline went past without results and Britain's biggest port in Dover stopped all traffic heading to the continent, threatening the U.K.'s supply chains with Europe. The currency's one-week implied volatility was the highest for a Christmas period in more than a decade.

Expectations of monetary easing by the Bank of England mounted, with money markets bringing forward bets for a 10-basis-point interest-rate cut to September, compared with March 2022 on Friday. Ten-year bonds rallied, with yields slipping as much as nine basis points, and the FTSE 100 share index fell as much as 3.3%. While the slump also reflected the dollar's strength, the U.K. currency also fell against the euro, with the shared currency rising as much as 1.7% to 92.17 pence.

"All of this is unwelcome news, at a time where there was already plenty to be concerned about," said James Athey, a money manager at Aberdeen Standard. "Markets are, in general, overly complacent about the risks out there. The pound is no exception."

The risk that Britain could drop out of the European Union at year-end without a trade agreement has been compounded by the prospect of immediate delays to food supplies after a new strain of Covid-19 was discovered in Britain. Prime Minister Johnson detailed new restrictions for London and the southeast, while several countries suspended inbound travel from the U.K.

"Once you layer Brexit on to this chaos, and now the closure of Dover, I can't see how we can avoid some disruption in the supply of perishables," said Jane Foley, head of foreign exchange strategy at Rabobank, adding that a no-deal scenario could see the euro rise to 95 pence or higher. "The pound will remain sensitive to Brexit-related news in the days ahead."

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