Did Boris really cause the fall in sterling?

Since February 21st, the pound has fallen against the dollar from over $1.44 to currently just over $1.39, having risen since this morning. Some commentators were blaming it on the announcement of the referendum date and some actually attributed the fall more specifically to the announcement by Boris Johnson, the London Mayor, that he would be supporting the "Leave" campaign. The following comment by ***John Redwood MP*** *takes a more sober assessment of the pound's fall.*

When sterling was at €1.15 in 2011 no-one suggested it was weak because we might leave the EU. It is now much stronger, yet we read the pound is falling owing to Brexit fears. In January 2012 there were just 118 yen to the pound Today there are 160, a yen devaluation of 35%. Against the dollar, which has been rising against most world currencies in recent years, sterling is approaching $1.40 again, a level it has reached several times before. The pound was also weak against the dollar in July 2013 and in April 2015, when its weakness was not ascribed to Brexit fears.

The reasons people sell a given currency and drive its price down from time to time are varied. Currency volatility has been a big feature of world markets so far this year. At the centre of the action has been the weakness of the Chinese yuan and the strengthening of the yen after a long period of weakness from the Japanese currency. There has also been a period of dollar weakness against the yen and Euro, as people revised their expectations of further US interest rate rises downwards. Sterling has been caught in some of the cross winds from these global currency moves.

Recent falls in sterling against the dollar may be related to perceptions that the Bank of England is now going to delay any interest rate rise this side of the Atlantic for many months. They may be related to continuing weak balance of payments figures and less hot money flowing in from Russia, the Middle East and other commodity producing areas. There have been people out to talk the pound down as they think it had reached uncompetitive levels. It is difficult to see why the possibility that Brexit might win the referendum should have a great lasting negative impact on our currency.

It is difficult to know whether the 2011 rate against the Euro meant the pound was too cheap or the current rate if still too dear. Markets change their minds on these matters, and often overshoot when correcting what they see as an anomaly. The pound did not suddenly fall the first time someone published a poll showing Brexit was likely after all.

Yesterday the Bank of England's testimony to Parliament mattered more. Hints that interest rates could be cut again and more money could be created showed the Bank doesn't mind more currency depreciation. The Bank was far more worried about low inflation and weaker growth than about devaluation.

Jason Pidcock, a city fund manager, also said that sterling's tumble was irrational.

'I actually think the UK economy will thrive if we leave,' he said. 'When people talk about the fear of the unknown, that's not a reason [*to remain in the EU*]. We should embrace the opportunity,' he said.

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