Currency Profile for the British Pound

April 22, 2010 **A MarketLink℠ Service from Travelex Global Business Payments**

GBP performance against the U.S. dollar:

Current bias for the GBP: ***Neutral***

GBP set an 7-week high in mid-April

Past week: +0.23%

Past month: -0.06%

Year-to-date: -5.20%

Sources of GBP strength:

While Britain's very soft economic recovery will keep rates at record lows for the foreseeable future, the Bank of England has allowed its £200 billion asset purchase program to expire.

While the unemployment rate remains unacceptably high, the U.K economy added jobs in three of the past four months.

Upside surprises to recent CPI reports saw year-over-year inflation rise further above the BOE's 2.0% target, fanning fears that inflation could remain above target for a prolonged period bringing in the time line for lending rate hikes.

Some of the recent polls have shown a moderating chance of a hung parliament in next month's general election.

Sources of GBP weakness:

The U.K.'s very anemic pace of economic recovery suggests that the Bank of England's record low lending rates will remain in place for the foreseeable future.

Emerging signs that the Liberal Democrats are gaining momentum ahead of May's election means they could rob votes from the Conservatives, a scenario that re-injects political uncertainty into the list of drags on the GBP.

Credit conditions in the U.K., remain tight, despite the BOE's best efforts to encourage increased lending.

Mounting worries about the dire state of British public sector finances and even a possible credit downgrade have kept investors wary of overexposure to GBP assets.

Sovereign credit risk in the euro zone and news that America's SEC brought a complaint against Goldman Sachs weigh on risk appetite and demand for assets like GBP.

Monetary Policy: The Bank of England (BOE) last cut its key repo rate by 50 basis points to an all-time low of 0.50% in early March 2009, a move that marked 4.50% of lending rate cuts since the peak of the financial crisis in October 2008. Given that traditional monetary policy tools had essentially become exhausted, officials were forced to adapt unconventional policy measures like the outright purchase of longer-dated gilts (government bonds). The Bank of England increased its quantitative easing budget on three subsequent occasions bringing its total to £200 billion worth of assets purchased. The stabilization and in many cases, improvement in Britain's economy prompted the BOE to allow its quantitative easing program to expire as expected in early February. However, the fact that credit conditions remain tight and that the U.K. economy barely crawled out of recession in the final quarter of 2009 has solidified the view that lending rates are not going to rise anytime soon. Britain's housing market has stabilized, but at historically low levels of activity. Retail sales have improved as well, but much of that improvement appears to have been fueled by a short-term boost in demand ahead of the rise in Britain's value-added tax. Job market conditions appear to be improving, but the unemployment rate remains near a decade high and is unlikely to moderate significantly anytime soon. Consequently, a rise in rates above their current record lows is not likely until some time in 2011.

GBP Outlook: *Balance of market opinion:* ***Negative***

The British pound recently enjoyed a brief bout of strength against most of its major counterparts, based largely on the view that the opposition Conservative Party had extended its lead over the incumbent Labour party, a notion that mitigated the risk of political gridlock following next month's general election. Investors worry that a hung parliament will severely undermine any new government's ability to enact difficult but needed fiscal reforms in the U.K. However, the most recent polls have shown the Liberal Democrats, Britain's third party, gaining momentum and eating into the Conservative's very slight lead. Consequently, political uncertainty has resurfaced and pushed the pound back lower against most of its major rivals. Additionally, the pound suffered from the continued sovereign credit concerns in the euro zone which have weighed on investors' risk appetite and undermined demand for assets like the British pound. Sterling will continue to derive its direction from fluctuations in the political outlook ahead of next month's election, with polls showing any party with a widening lead likely to provide support. However, because the underlying economics in the U.K. remain weak and the Bank of England is seen as lagging in monetary normalization, the pound's upside will continue to be very limited.

Upcoming critical events:

Apr 23: GB Q1 GDP

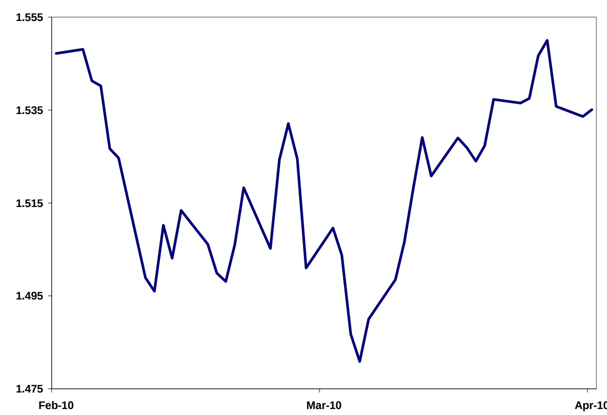
May 5: GB April PMI Manufacturing

May 10: BOE Monetary Policy Committee Meeting

May 11: GB March Industrial Production

May 12: GB April Claimant Count

Economic indicators	GBP	USD
3-month Deposit Rate	0.55%	0.42%
GDP (annual rate)	-3.1%	5.6%
Inflation (annual rate)	3.0%	2.3%
Unemployment	7.8%	9.7%
Trade Balance (US$)	-130.0 bln	-532.9 bln



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