markit

4th floor
Ropemaker Place
25 Ropemaker Street
London
EC2Y 9LY
United Kingdom

tel +44 20 7260 2000
fax +44 20 7260 2001
www.markit.com

Markit Economic Research

05/03/2013

Currencies

Sterling rebounds as PMI data allay fear of 'triple-dip' recession

- **Sterling volatile as PMI data drive changing expectations of BoE policy**
- **50 pip drop in cable due to weak manufacturing PMI, followed by further 50 pip fall after construction data**
- **Solid services PMI causes 60 pip rise**

Having fallen below $1.50 for the first time in just over two years on Friday due to much weaker-than-expected manufacturing PMI data, sterling rebounded sharply on Tuesday on the back of consensus-beating service sector PMI data.

The Markit-produced UK manufacturing PMI fell from 50.5 in January to 47.9 in February, signaling a shock slump in factory activity. Analysts had been expecting a reading of 49.5. The surprise immediately led to heightened expectations that the Bank of England would vote for more quantitative easing at its Monetary Policy Committee meeting on 7 March. **Sterling sank, dropping 80 pips in the 15 minutes post PMI release, and sinking below $1.50 for the first time in over two years later in the day**.

The poor manufacturing data were followed on Monday by the construction PMI, which also showed a surprise downturn, adding to concerns about the inevitability of a slide back into a triple-dip recession and **instantly pushing the pound down 50 pips**.

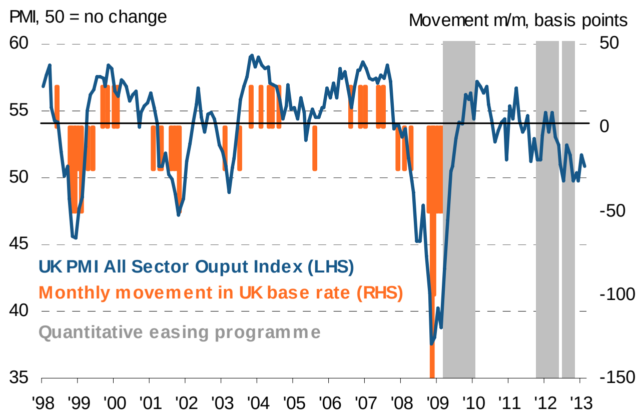
Sentiment towards sterling changed on Tuesday, however, when the services PMI came in above market expectations. The index hit a five-month high of 51.8 against consensus forecasts of slide to 51.0. The improvement in services meant the all-sector PMI was consistent with GDP rising 0.1% in the first quarter, reducing chances of further monetary easing. Sterling jumped higher on the news, **instantly gaining 30 pips and moving on to double that gain**.

Further QE still not ruled out

In our view, the chances of further easing by the gloomy-sounding Bank of England has merely been reduced by the better-than-anticipated services PMI data, and extra QE is still very much a possibility. The PMIs clearly influence policy decision making at the Bank of England (see chart) and the most important signal is that the all-sector PMI remains at a level that is historically consistent with the MPC voting for more stimulus.

Sterling rebounds (5 March 2013)

PMI and monetary policy decisions



.

Chris Williamson

Chief Economist

Markit

Tel: +44 207 260 2329

Email: chris.williamson@markit.com

For further information, please visit www.markit.com