

Sterling jumped almost 1 percent against the euro on Wednesday after Britain's Autumn Statement on the budget was read as more growth-supportive and upbeat than some had expected. (Reuters)

Sterling was headed for its strongest monthly performance in eight years on both a trade-weighted basis and against the euro on Thursday, hitting a nine-week high against the basket of currencies that measures its broader strength.

The pound has been boosted this month as investors have unwound heavy positions against the currency, with the focus turning away from political risks facing Britain – namely its messy exit from the European Union – and towards risks elsewhere, particularly in Europe.

While still more than 10 percent weaker on a trade-weighted basis compared with before the vote for Brexit, it has gained more than 5 percent since the start of the month against the euro, which is weighed down by uncertainty over an Italian constitutional referendum in just over a week's time, and over French and German elections next year.

“Both (Britain and the euro zone) face differing political risks that are hard to trade off,” said FxPro analyst Simon Smith. “My base case would see the euro moving lower against sterling.”

But “the higher inflation, lower growth, still-low rates combination, plus Brexit uncertainty, is a tough backdrop for sterling from the second quarter of next year onwards.”

The Bank of England's trade-weighted sterling index, which measures the pound against the currencies of Britain's biggest trading partners, has climbed almost 5 percent since the start of November, its best showing since January 2009.

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That move was driven by a surge in long-dated British government bond yields after finance minister Philip Hammond ramped up the government's borrowing forecasts by an extra 122 billion pounds (\$151 bln) over the next five years.

The Office for Budget Responsibility said Brexit would lower trade flows, business investment and migration, cutting growth potential. But its downward growth revisions were less severe than some had expected, with the economy still expected to expand by 1.4 percent next year and 1.7 percent in 2018.

“The OBR presented a relatively upbeat set of economic forecasts, expecting only a modest slowdown in growth in the coming years, although they could still prove too cautious,” said MUFG currency economist Lee Hardman.

“At the margin the developments support our outlook for the pound to continue to defy more pessimistic expectations.”

Against the dollar, which was trading near 14-year-highs, sterling edged up 0.1 percent on the day to \$1.2461.

Down by almost a fifth against the dollar over the past year, sterling has proven more resilient since the start of October, helped by signs the economy is doing better than many economists had feared after June's vote to leave the EU and by hopes that Brexit could be softer than some had feared.

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