

The Editor
The Financial Times

From Anthony Cowgill

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Sir

In your leading article 'Sliding Sterling' (February 20) and your related news item 'Bobbing pound could be heading for bumpy descent' I would suggest you are looking at the global currency situation as through the wrong end of a telescope.

The marker against which currency movements can be best understood is the US dollar which is the dominant world currency used in over 60% of all commercial transactions and involved in some 80% of currency exchange transactions worldwide.

If the percentage divergencies of principal currencies against the US dollar are examined it will be seen that for the past decade (ever since it came out of the ERM) sterling has been the least volatile freely floating major currency, fluctuating relatively little in comparison to other currencies (around an average of some 1.56 to the dollar).

Since the launch of the euro, sterling has sat steadily between the dollar and the euro. For most of this period it has been about some ten points stronger than the euro, in recent weeks narrowing to around some five percentage points.

You state that sterling's trade weighted value has remained remarkably constant squeezed uncomfortably between its two giant trading partners to the east and the west. I would question the word uncomfortably as the NIESR in a report last year commented that sterling has been 'cushioned' by a tendency for movements in the DM (now euro) and the US dollar/£ rate to be mutually offsetting.

In addition, the Bank of England Trade Weighted Exchange Rate Index is a poor guide to the global currency situation as it is very much flawed, focusing solely on manufacturing and ignoring large parts of the world with which UK trade is significant. It is also based on out of date (1989-90) data.

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