

This new advocacy of further monetary loosening can be equated with a distinct desire by the Bank of England to promote a clear currency devaluation irrespective of the well documented inflationary consequences.

The UK Chancellor's target deficit figure for FY2012/13 is also at risk, and this is a further factor worrying the currency markets. This target became less attainable once it was revealed that the recent 4G auction produced a shortfall of circa £1.2bn.

Finally the markets are losing faith in the political aptitude of the coalition. Both major partners seem intent on accentuating their differences in the run up to the 2015 election, whilst the Prime Minister's eagerness to embrace euro scepticism has further rattled the markets. Most market participants fully realise that if the UK leaves the euro zone life on the outside will be very difficult indeed.

All the above factors have contributed to a substantial and discernible fall in confidence of the UK government and sterling.

Conclusion

We are almost certain to see a rise in UK inflation across the board given the great official encouragement. We shall be writing next week with our conclusions and suggested plan of action now that the inflationary genie has escaped the lamp.

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