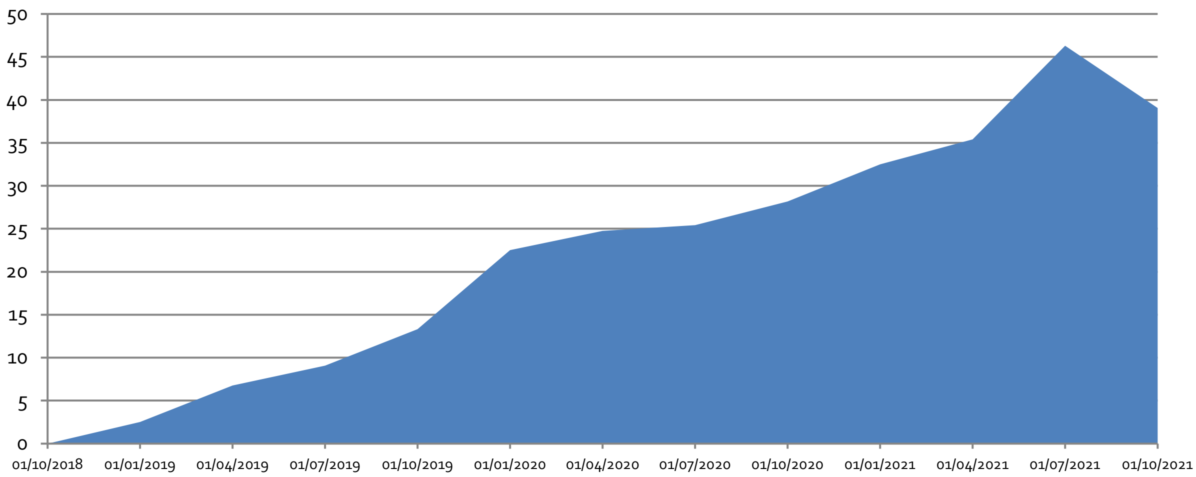
The graph below shows Sterling losing ground during September.

UK Sterling v US Dollar

Source: xe.com

The RIO Currency Concept Account lost some ground in the third quarter in part due to the Dollar gaining strength in late September. The Dollar rally provided the ideal opportunity to buy back into Sterling which I have done, the increased weighting in Sterling means that the account is well positioned as we enter the fourth quarter.



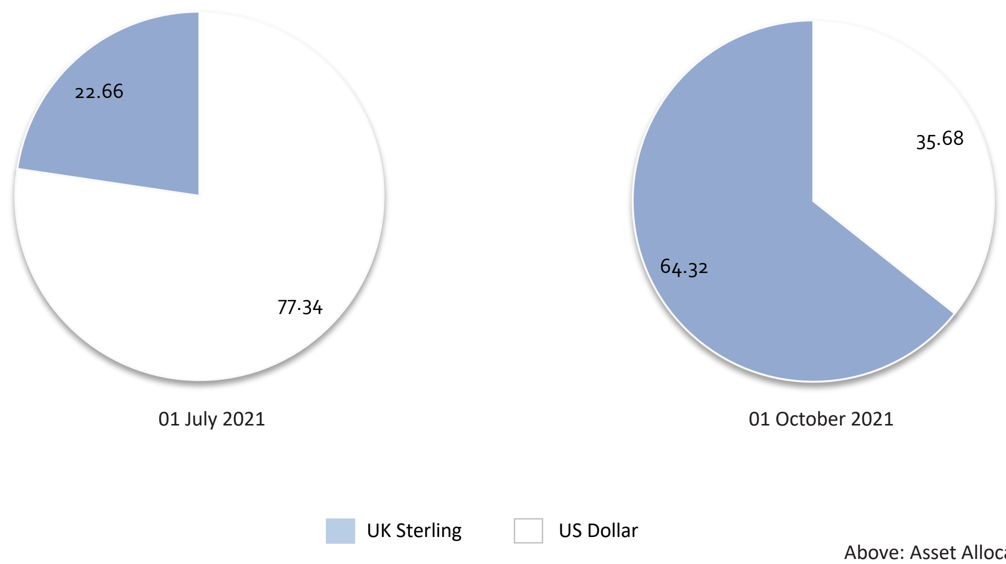
The graph above shows the gain recorded for the RIO Currency Concept Account since launch, a net return of 39.06%.

Looking back over the quarter, as July ended the GPB/USD exchange rate stood at 1.3959. Sterling then rallied through most of July which presented me with the opportunity to sell, executing 2 profitable trades; selling at 1.3885 on July 30th and 1.387 on August 9th. Moving through the third quarter the Pound came under pressure as Boris Johnson announced his intent to raise the cost of National Insurance contributions. The Prime Minister's changes included an increase in share dividend tax which will rise by 1.25% and the pension triple-lock will be scrapped for the financial year 2022-23. This announcement put downward pressure on Sterling which fell from $1.385 to $1.377. Both employers and employees will be forced to pay more, and dividends will now pay out less; this was not welcomed. Having already sold into the Pound's rally during the second quarter, taking profits, the Account's exposure was reduced prior the Prime Minister's announcement. The additional Sterling sales in July and August were proven to be the right move.

During September the Pound suffered significant losses of value against all major currencies as investors fear the UK is headed for a hard winter. Fuel queues and surging energy prices are a strong driver, and the economy will likely suffer a further surge in inflation over coming months, while economic growth slows temporarily. There are specific factors which have drawn attention to the UK such as the massive shortages of specialised HGV drivers. This, some feel, could mean that the UK will be amongst the hardest hit by the global energy and supply chain crisis.

The rest of the world is also facing an energy crisis, but the UK went into their energy crisis with just 1.0% of its gas storage at capacity full.

Having sold into Sterling's rally during the second quarter and taking profits, the account had significantly reduced it Sterling holdings. I had sold further at the start of the quarter and was eager for a chance to average back in as Sterling looked oversold. As we neared the end of Q3 the falling Pound presented the ideal opportunity to do so, and on September 23rd I acquired Sterling at 1.3620, and added to the position again at 1.3538 on September 29th. As indicated in the pie charts below, these buys have increased the weighting of Sterling and have positioned the Account to potentially bank gains as mentioned earlier. I expect Sterling to revisit 1.3800 as we move through this quarter, if so I will close out 45% of the total new positions and take profits.



Above: Asset Allocation %,
RIO Currency Concept Account

Looking back, the Pound was one of the better performers of 2021 prior to the correction in September. Sterling found support close to \$1.3400, which is just ahead of the (61.8%) retracement objective of Sterling's rally since a base around \$1.2850 was forged during October 2020. The bounce before the weekend that began from \$1.3460 and recovered almost half of what Sterling lost since the FOMC meeting found near \$1.3580. Any follow through buying later this coming week could encounter resistance around \$1.3630 and then \$1.3700, where the 20-day moving average is found.

Looking forward, the fundamentals remain strong.

The Bank of England could now have little choice but to raise interest rates to try and fight inflation. A rate hike would support Sterling, which would almost certainly rally. Meanwhile, the International Monetary Fund forecast on Tuesday that the UK economy could show growth of over 6.8% this year.

On the other side of the pond, the US debt ceiling issue has been kicked down the road, but the Democrats could still struggle to move forward. The Republicans blocked a Democratic move in the Senate to raise the debt limit which had escalated tensions a few weeks previously, but reprieve came as a temporary deal was made to raise the statutory debt limit by $480 billion. Estimated to be enough to allow the government to continue borrowing to early December. This fiasco will all restart when they, once again, will have to address the debt ceiling issue in December. Hopefully, by then, reason will prevail and the Treasury will be able to avert the unthinkable federal payments default.

Another source of Dollar strength has been the recent and ongoing deterioration in global investor sentiment; the Dollar has been in a win-win situation lately. When the outlook for higher Fed interest rates are fully digested, and markets start rising, the Dollar rally will finally fade and Sterling will have its day.

A missed debt servicing payment, even if it is a low probability event, would be disastrous as both Treasury Secretary Yellen and Fed chief Powell warned Congress several times in unambiguous language.

Several members have asked when is the best time the trade this pair? The best time to trade is when both the UK and the US markets are open. This is when the pair experiences the largest daily movements and is when spreads will have a reduced influence on profit.

William Gray
The RIO Club