

Pound falls to two-year low as political uncertainty adds to gloomy economy

The pound has fallen to a two-year low as the political landscape adds to uncertainty in an economy already under strain.

On Monday afternoon the pound fell to US\$1.1867 – its lowest level since March 2020. Just before 5pm, it had strengthened slightly to US\$1.19.

It comes days after Boris Johnson's [resignation as prime minister](#) and as the race to replace him begins.

The political situation is adding to the UK's gloomy economic outlook – inflation, the risk of a recession, Brexit, and cost of living pressures are already taking their toll.

At the same, this week's important US inflation data sent the dollar surging as investors looked for low-risk currencies.

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Image:

Pound v dollar since July 2020

Versus the euro, the pound was down slightly to 84.80p.

Rabobank strategists said it is not yet known whether Mr Johnson's resignation will be enough to provide economic "coherence".

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They said in a note: “Although pound investors will be hoping for a government less distracted by scandal and more focussed on providing coherence around the post Brexit economy, the jury is still out.

“The pound may suffer a lack of fresh direction until the new prime minister is in place.”

This week will see the UK’s latest monthly GDP figures released and these are expected to show no growth in May, reinforcing fears that second quarter data will show an economic contraction.

The UK economy [contracted by 0.3% in April](#), according to official figures, following a small decline in March.

Latest figures also showed that [inflation reached a 40-year high of 9.1% in May](#), up from 9% in April.