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Weekly Brief

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GBP

Sterling was on the back foot last week and saw losses against most G10 currencies. Soft data releases were the primary trigger alongside a risk-off mood in the markets, which does not favour the riskier pound against more resilient currencies like the US dollar.

Last week's UK CPI inflation data came out 0.1% lower than expected on Wednesday and is now down to 3.4%. Whilst this is still higher than the Bank of England's 2% target, it is down from 4% in the previous month, suggesting a quicker-than-expected fall to normality. After the data was released, market expectations of interest rate cuts appeared to revise before the BoE voted on Thursday to keep rates on hold at 5.25%. However, Governor Andrew Bailey also suggested that the UK economy was moving towards the point where the Bank of England could start cutting rates.

The result caused the pound to fall to the lowest levels for GBP/EUR since the start of January. Interbank rates touched 1.1599 before strong buying caused a market re-correction. GBP/USD saw a similar trend, with rates falling from 1.28 to 1.2577, but has yet to see any significant recovery.

The shorter four-day Easter week will see fewer data releases of consequence, with the first relevant UK event seeing GDP on Thursday. Market forecasts anticipate the Q4 figures will remain unchanged at -0.2% YoY, which would keep the UK in a technical recession.

EUR

Europe's single currency benefitted from better releases of its Purchase Managers Index data last week. Improvements to its Services sector rose from 50.5 to 51.1, continuing to push above the key 50 level, which represents growth.

Similarly to the UK, data is light on the ground this week. We will only see German retail sales figures on Thursday, which are predicted to see a slight improvement from -1.4% to -0.9%. Whilst still in recessive territory, this does at least represent some positivity for Germany, which has produced many low GDP and other economic readings over the last year.

Currency headlines

GBP: Is the BoE thinking about interest rate cuts?

EUR: More positive outlook from Eurozone PMIs

USD: USD boosted by bullish interest rate forecasts

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https://www.moneycorp.com/en-gb/news-hub/economic-update-25-march-2024/