15 April 2024

# Weekly Brief

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## GBP

The latest GDP growth data for the UK was released on Friday. It shows that the UK economy grew 0.1% in February and 0.3% in January (revised up from the 0.2% reported previously), which could indicate the UK economy is rebounding from its technical recession. While the data aligned with forecasts, it's worth noting that both the manufacturing and services industries reported growth that exceeded expectations. This positive performance has led some economists to speculate that the UK's growth for the first quarter of this year could surpass the 0.1% initially projected by the Bank of England.

The positive growth data could also give the Bank of England more flexibility and time on its path towards rate cuts this year. MPC members Breeden and Greene also spoke on various panel discussions last week, with Megan Greene, one of the more hawkish members of the Bank of England, touching on the possibility of rate cuts. In a Financial Times column published on Thursday, "she said, In my view, rate cuts in the UK should still be a way off"." Market expectations for the first rate cut have now moved from August to September, and the forecast for quarter-point cuts for the year is down to two.

Following the volatility at the back end of last week, GBP/USD appears to have not yet found a resistance level and continues to fall. Markets might have expected a market re-correction when the pairing touched 1.25 but it has pushed through this barrier to 1.2432, which is the most favourable level for the pair's pound buyers since November last year.

The majority of any further Sterling-based market movement will likely occur midweek as Andrew Bailey holds two talks: the first on Tuesday evening, following the UK's latest unemployment figures, and the second after the CPI release on Wednesday afternoon. There will be much to discuss regarding inflation, considering that US inflation has not dropped for two months now and that many central banks are seemingly copying each other until it is clear that interest rate cuts must start to be made.

i News reported that a panel of top economists have suggested that if the Fed delays interest rate cuts, that could have a knock-on effect in the UK. If the Bank of England cuts rates before the Fed, there is a risk of its devaluing the pound, which could fuel further inflation. Edward Jones, a Professor of Economics at Bangor University, stated, "The Bank of England will be looking at the Fed and European Central Bank. I still think we won't see a cut until August".

The next UK interest rate decision is not until May and will likely keep markets hanging in anticipation over the next few weeks. Unless UK GDP takes a more significant turn for the worse, the signs seem to indicate that we are looking well into H2 before cuts begin. Separately, Friday will end the week with UK retail sales. A strong start to the year saw figures at 3.6% in January with the post-Christmas sales but a slump to 0% in February. Current forecasts are not live, but any deviation either way signals a positive or negative direction, so sterling could see some volatility.

## EUR

Last Thursday, the European Central Bank maintained its rates for the fifth consecutive meeting but appeared to hint at a potential rate cut in June. The ECB President, Christine Lagarde, stated, "It would be appropriate to reduce the current level of monetary policy restriction" if inflation continues to move toward its 2% target.

She also nodded to the higher-than-expected CPI inflation data released in the US earlier in the week, saying, "We are not assuming that what happens in the euro area will be the mirror of what happens in the United States." Her comments followed markets pushing back their forecasts for the first Fed interest rate cut after CPI data showed consumer prices increased by 3.5% from the previous year, ahead of the 3.4% expected.

There aren't too many significant data releases this week in Europe, which won't help support the single currency, which is currently at its lowest level this year. Its currency index has now dropped to 107 despite being at 110 earlier in the month.

The ECB is in a similar position to the Bank of England, and as such, it seems likely to keep GBP/EUR in rangebound territory. The pairing saw a ¾ cent improvement from 1.1650 to a peak of 1.1725 on Friday, which marks the best time to buy euros since 10th March.

## Currency headlines

**GBP: UK Economy showing early signs of growth?**

**EUR: ECB hints at June rate cuts**

**USD: Retail sales figures expected to drop to 0.3%**

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