22 April 2024

Weekly Brief

Powered by moneycorp

ChamberFX

GBP

The pound dropped to a fresh year low against the USD at the end of last week's trading sessions as the Deputy Governor of the Bank of England, Dave Ramsden, highlighted easing price pressures in the UK. This could suggest that he has become more open to the possibility of an interest rate cut sooner rather than later in the UK.

Ramsden appeared more relaxed on upcoming changes to interest rates in the UK during his speech in Washington on Friday evening, highlighting the fall in Consumer Price Indexes released earlier in the week and the trend of reducing price inflation for the UK that the CPI data has shown steadily since Autumn 2023. This, in his opinion, will see UK inflation heading back towards the Bank of England's targeted 2pc range. The reiteration holds particular weight, given comments from Bank Governor Andrew Bailey earlier in the week, who also stated that there is strong evidence that UK inflation is falling. This disinflation (the rate on inflation falls but prices still rise, but at a slower pace) is the key focus for Policymakers at present.

As usual though the picture is anything but clear at the moment on when The Bank of England are likely to react to falling inflation with some commentators suggesting that expectation for an interest rate cut in the UK has actually been delayed until August or September this year.

GBP's lost ground coincides with these shifting expectations around interest rates, posting a fresh year low for GBP/USD and going back to levels not seen against the euro since early in the year. This GBP sell was exaggerated somewhat by the usual weekend illiquidity, as only the US markets remained open during Ramsden's speech. However, it does demonstrate a reshift in expectations for a UK interest rate cut in June, with some expectation that the BoE may act sooner and begin to cut rates in their May meeting.

The focus for the pound this week will initially fall on Tuesday's PMI release. Services PMI, in particular, holds weight for the pound due to our economic reliance on the sector. The general consensus is for a reading of 53, which would show continued growth in the industry—anything lower than this could dampen Sterling's performance further.

EUR

The euro is benefitting from a weaker pound at the moment due to speculation around interest rate cuts for the Bank of England this year, although it is failing to make any progress against the USD for now. The European Central Bank has helped stabilise expectations around interest rate changes in the Eurozone, providing more stability to the currency as a whole.

With firming expectations of a change in monetary policy in June's meeting (barring any wild changes in economic conditions in the Zone), there is little of note in terms of data releases this week for the EU. PMI releases are expected to be mute with little change to performance in either the manufacturing or services sectors. However, the particular focus will be on German data as the powerhouse of the EU.

One train of thought around potential risks to the euro's value is that the possibility of increased oil prices due to conflict in Iran could continue to maintain pressure on gains for the single currency due to the bloc's heavy reliance on energy imports.

Currency headlines

GBP: Will Services PMI show continued growth?

EUR: Euro under pressure with rising oil prices

USD: Has the USD been overbought?

Lauren Buckner

Head of Private Dealing

https://www.moneycorp.com/en-gb/news-hub/economic-update-22-april-2024/