

Currency Forecast

October 2020

Last month's highlights

The pound has spent the last few weeks buffeted by conflicting Brexit headlines, with time rapidly running out to agree a deal before the end of the year. Although we have seen some GBP weakness we have not seen a definitive trend either way as the market tries to stay nimble enough to react to any developments.

In terms of monetary policy, the two big changes we've seen recently are

the fact that the Fed will no longer tighten rates simply as a result of low unemployment, and the news that the central bank is aiming for 2% inflation on average, and so is happy to look through what is deemed as temporary inflation above 2%.

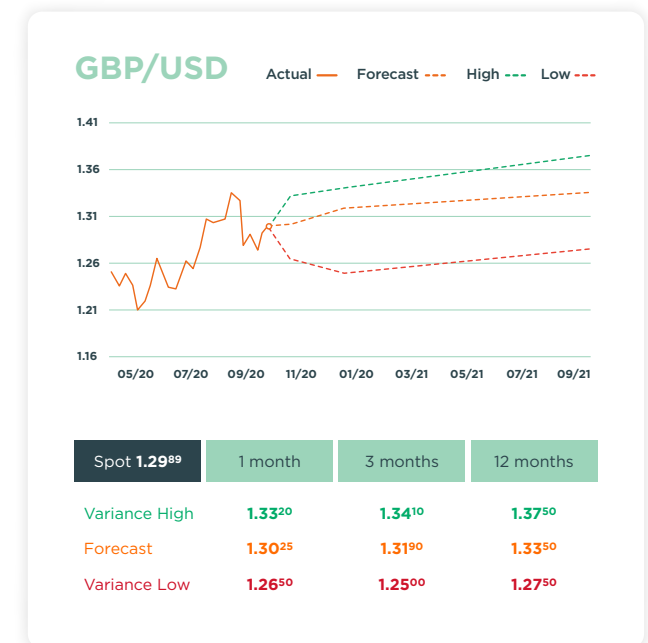
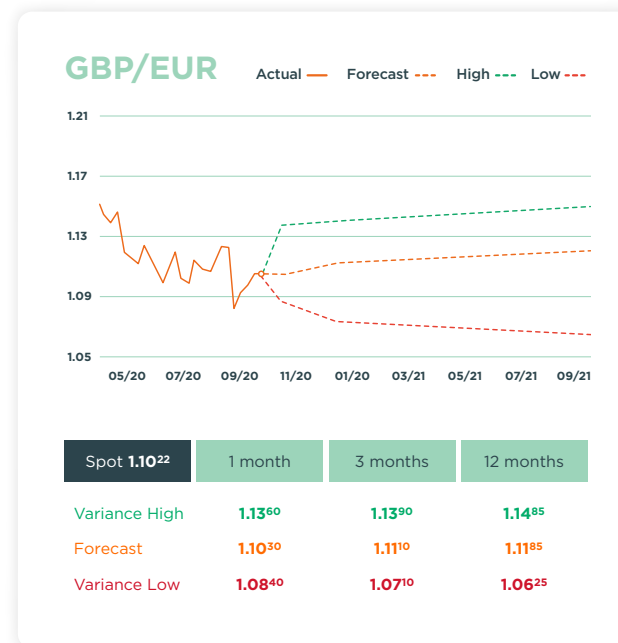
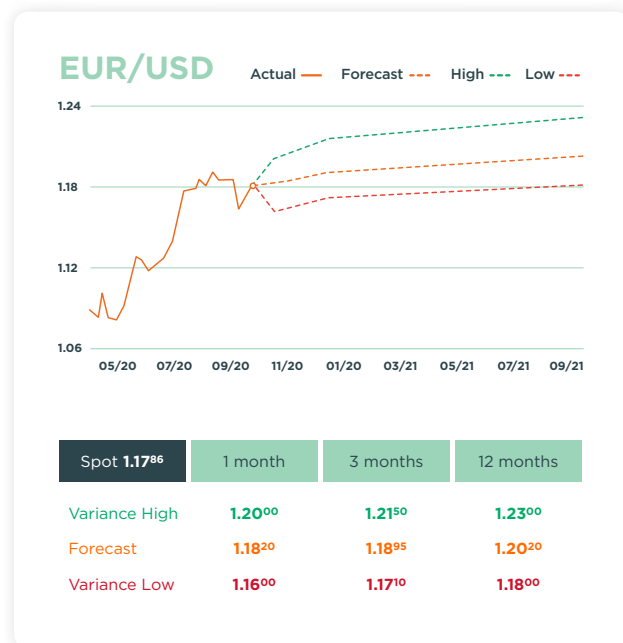
The result has been a steepening of the US yield curve and a weaker USD. The Bank of England (BoE) also suggested that the UK economy could need

further stimulus, reinforcing its dovish tone. Additionally, we are still getting some mixed messages around negative interest rates which is leading to some GBP volatility.

The number of cases of coronavirus have increased sharply in both the UK and in Europe, and restrictions have subsequently tightened. The balancing act between stemming the virus and supporting the economy is

a delicate one. Overall we still have ongoing uncertainty and the prospect that things will continue getting worse before they get better is having a negative impact on risk appetite.

Our 12-month forecasts evaluate predictions from a range of individual providers, including a cross-section of major banks and leading financial institutions. These rates are intended to indicate the inter-bank rate and do not reflect the market rates that would typically be quoted when transacting with Currencies Direct.



Market themes

BREXIT NEGOTIATIONS

With a provisional deadline of October 15th for a deal to be in place, we're now at the crunch point of Brexit negotiations. The word behind the scenes is that progress is being made, but that significant gaps remain. We've definitely seen more optimism creeping into the picture over the last few weeks however, and there does seem to be more good will on both sides, but there is a lot of work still to be done. The current expectation is that a deal will be done but it will be a skinny one and the harder points will be kicked down the road by mutual consent.

IMPACT **GBP** ↑ → ↓

MONETARY POLICY

The recent change in strategy by the Federal Reserve has given the market confidence that interest rates will not be positively revised even if we see unemployment moving lower and inflation moving higher. In the UK the Bank of England's (BoE) dovish tone appears to cement the expectation that central banks are remaining cautious in their approach and offering a bedrock of support to underpin sentiment.

IMPACT **EUR** ↑ → ↓

CORONAVIRUS

We are currently at a critical stage in the progression of the coronavirus crisis. Cases are rising fairly rapidly now, so experts will be looking to see if this trend continues and infections increase exponentially. If that does indeed happen we will certainly see tighter restrictions imposed. GBP remains vulnerable to additional local lockdown measures, and the looming possibility of another national lockdown is likely to keep the currency under pressure.

IMPACT **GBP** ↑ → ↓

Decrease ↓ Remain → Increase ↑

Key data - October

 13/10/20
UK Employment data
GBP ↓ EUR ↑ USD ↑

 13/10/20
US Inflation data
GBP → EUR → USD ↓

 16/10/20
US Retail sales
GBP → EUR → USD ↓

 29/10/20
US GDP
GBP → EUR ↑ USD ↓

 30/10/20
EU GDP
GBP → EUR ↓ USD →