CURRENCY FORECAST
APRIL 2020

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MARCH REVIEW & APRIL RISK EVENTS & THEMES

POUND STERLING

March was an eventful month for Pound Sterling, with a major budget by a new chancellor, a new governor at the Bank of England (BoE) and two interest rate cuts for the UK economy. While rates had been left on hold at the end of January, incoming BoE governor Andrew Bailey saw fit to enact two emergency rate cuts, slashing the lending rate to 0.1 percent – an historic low. It was also a first showing of the new Chancellor of the Exchequer, Rishi Sunak, who underwent a baptism of fire with his first budget, which focused on measures to stimulate the economy and lessen the damage caused by the Covid-19 pandemic.

In response to these policy changes, the Pound generally weakened over the first half of the month before plunging dramatically on 19 March in reaction to the US cutting interest rates and outlining a massive stimulus programme. At one point the Pound was knocked back to a 35-year low of $1.14 – a worse-than-expected fall analysts ascribed to the UK's untethering from the EU economy. There was a similar fall for the Pound against the Euro, albeit less severe, with GBP/EUR touching €1.06. For the remainder of the month Sterling clawed back some of its losses, although it ended March in a weaker position than when it entered.

At the same time, several key members of the UK government – including the prime minister Boris Johnson – were diagnosed as carrying the Covid-19 virus, which caused some traders to speculate that the UK's Brexit extension will be pushed further out into the future. This provided a floor for Sterling. In April it will be the UK's response to the coronavirus outbreak, as well as the likelihood of there being a further Brexit extension that will be among the prime drivers of GBP.

EURO

In contrast to other world central banks, the European Central Bank (ECB) opted to not reduce interest rates any further in response to the virus outbreak. With global contagion levels now concentrated on Europe there was intense speculation that the ECB would lower rates further into negative territory (at present the main lending rate is -0.5 percent). Instead, however, the bank chose to unleash a €120 billion stimulus package aimed at helping key sectors and businesses weather the storm.

Economically, the Eurozone did not fare well in March, with key PMI figures posting dismal readings and business activity posting a record fall. Furthermore, fractions have begun to emerge politically within the EU over the response to the disease outbreak, causing a stall in sentiment that ultimately led the Euro to fall against the US Dollar over the month.

UNITED STATES DOLLAR

March saw a sustained flight to safety for currency traders, with USD inevitably benefitting further. Federal Reserve Chair Jerome Powell escalated his economic war against the coronavirus, cutting the key US benchmark interest rate to almost zero and unleashing a $700 billion stimulus package to shore up key sectors of the economy. Mostly these took the form of purchases of Treasury and mortgage-backed bonds. Further stimulus measures agreed in Congress would amount to almost $3 trillion in guaranteed loans.

It was the second such interest rate cut in as many weeks, with the Fed stating that rates would be kept low until the danger of the virus had passed. Despite the cuts, the US Dollar continued to remain resilient in the face of the pandemic, fulfilling its role as global reserve currency and a safe haven during the economic disruption. Accordingly, the US Dollar index (DXY) rose from around 96 at the start of March, to finish up at almost 100 by the beginning of April.

KEY DATES

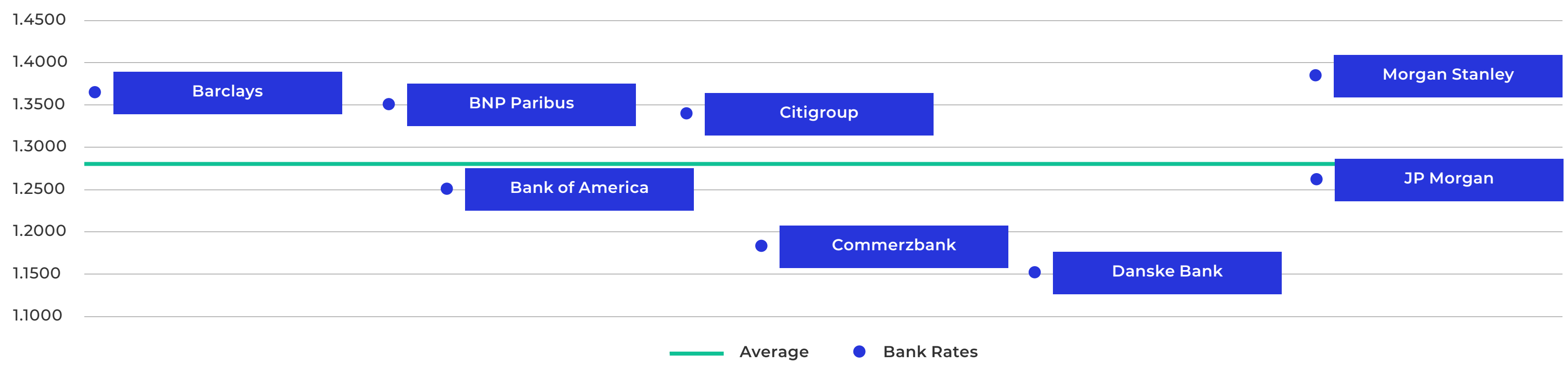
UNITED KINGDOM	
9 April	Industrial Production (Feb)
9 April	GDP and Trade Balance (Feb)
16 April	BRC Retail Sales (Mar)
21 April	ILO Unemployment Rate
23 April	Markit Services PMI (Apr)
30 April	GfK Consumer Confidence

EUROZONE	
9 April	ECB Monetary Policy Minutes
17 April	Inflation Data
22 April	Eurozone Markit PMI (Apr)
30 April	Eurozone GDP (Apr/Q1)
30 April	Eurozone CPI (Apr)
30 April	ECB Interest Rate Decision

UNITED STATES	
6 April	OPEC Meeting
8 April	FOMC Meeting Minutes
9 April	Initital Jobless Claims (Apr)
15 April	Retail Sales (Mar)
29 April	GDP Q1
29 April	Fed Interest Rate Decison

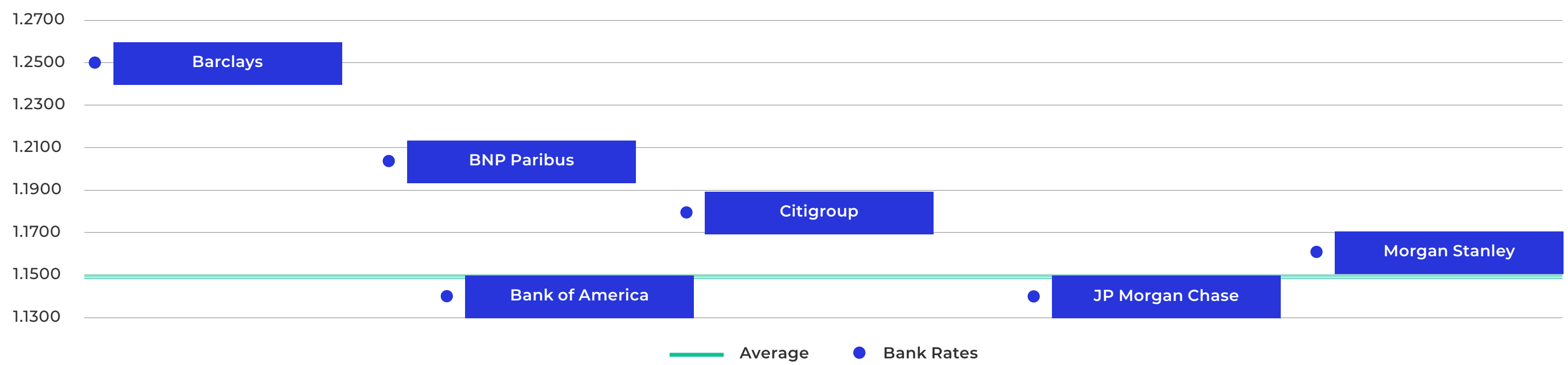
GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.3600
BNP Paribus	1.3500
Bank of America	1.2500
Citigroup	1.3400
Commerzbank	1.1800
Danske Bank	1.1500
JP Morgan	1.2600
Morgan Stanley	1.3800



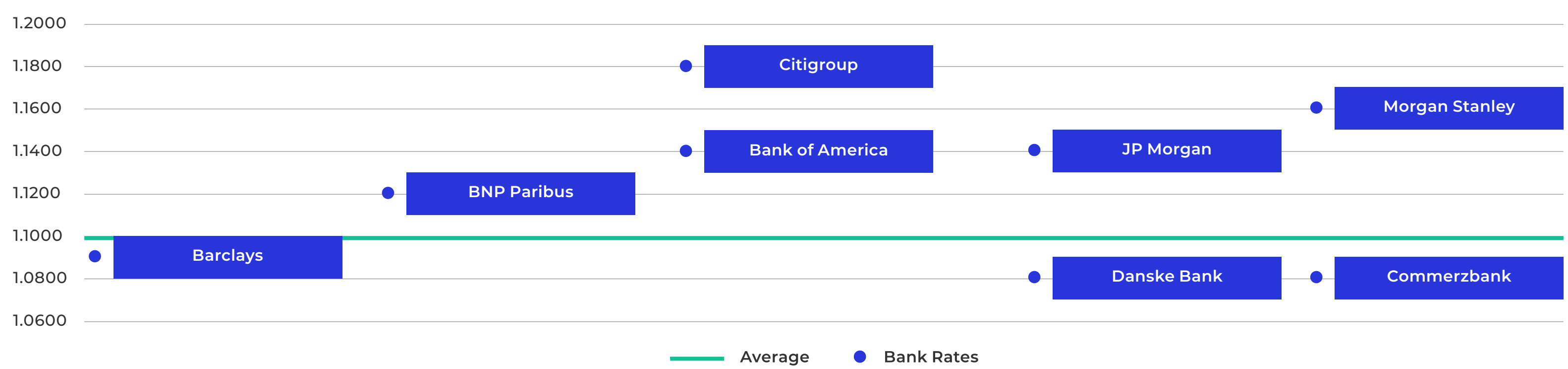
GBP/EUR TOP BANK FORECASTS

BANKS	Q2
Barclays	1.2500
BNP Paribus	1.2000
Bank of America	1.1400
Citigroup	1.1800
Commerzbank	1.0800
Danske Bank	1.0800
JP Morgan Chase	1.1400
Morgan Stanley	1.1600



EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.0900
BNP Paribus	1.1200
Bank of America	1.1000
Citigroup	1.1300
Commerzbank	1.1000
Danske Bank	1.0700
JP Morgan	1.1100
Morgan Stanley	1.1800



KEY THEMES

UNITED KINGDOM

Damage to UK economy caused by virus pandemic. First and foremost, one of the key drivers for Sterling will be the damage inflicted on the UK economy by the Covid-19 virus. Key growth, PMI, unemployment and inflation figures due over April will give markets an insight into the damage, with fears that surging unemployment and recessionary warnings will impact the Pound. The initial March UK Markit services PMI posted a dismal 34.5.

UK-EU Trade negotiations. pandemic has knocked back hopes that they will be completed before the transition period is up at the end of 2020. Boris Johnson had pledged to have the talks finalised within this time, but with he himself being diagnosed with the virus – as well as EU chief Brexit negotiator Michel Barnier – it seems likely that a delay will be unavoidable. The European Peoples Party (EPP) has urged the UK to extend the transition deadline as the whole continent struggles to come to terms with the pandemic.

What is the BoE's next policy move? The Bank of England has painted a gloomy picture about the prospects of the UK economy in 2020. Although in its last meeting it kept interest rates on hold at 0.1 percent, it has signalled that it is ready to take further action to support the economy, with the Monetary Policy Committee saying it "stands ready to respond further as necessary to guard against an unwarranted tightening in financial conditions, and support the economy". The BoE has increased its bond buying to £200 billion and will continue with quantitative easing. Analysts expect the bank to intervene more heavily in bond markets over the coming month if stresses begin to appear, potentially leading to the kind of 'open ended asset purchases' being pursued by the Federal Reserve.

EUROZONE

Eurozone growth outlook. The Eurozone continues to move into uncharted waters with recession warnings in place for a number of its key member states. Ratings agency Fitch issued a crisis report as part of its Global Economic Outlook forecast stating that its baseline forecast for the Eurozone is a deep recession, with Eurozone GDP expected to contract by 4.2 percent in 2020. For Q2 alone, Fitch estimates that GDP will contract by 28 percent – an unprecedented peacetime fall, although it admits that there is a large margin for error in its forecast due to the unprecedented nature of the crisis.

What is the ECB's next policy move? The ECB has warned of a potential sovereign debt crisis in the bloc, with policymaker Yannis Stournaras indicating the virus panic is likely to torpedo growth in the region and that banks' balance sheets could once again be in jeopardy. Mr Stournaras is one of a number of policymakers calling for the issuance of joint bonds that would help lower the risk premium for the more at-risk states. On that basis it would seem that we can expect more direct intervention from the ECB rather than any new change in interest rates.

What is the Political risk in the region? Lingering tensions within the EU could worsen if a perceived lack of help for Italy and Spain becomes more concrete. For now, the ECB rescue plan is likely to keep southern European banks solvent, but tensions remain. At the same time a build-up of refugees in Greece could cause problems as surrounding EU nations shut their borders, potentially inflaming populist politics.

UNITED STATES

What is the Fed's next policy move likely to be? While only a month ago the US was expecting Q1 growth of around 1.3 percent (annualised) due to the virus, growth in 2020 is now expected to turn sharply negative. In fact, the Congressional Budget Office (CBO) – a federal agency that compiles economic statistics – forecasts a dire sounding 7 percent contraction in Q2, annualised to a rate of -28 percent. If such a huge drop in GDP comes to pass it remains to be seen whether the US Dollar will continue to act as a global reserve risk-on currency in the same capacity as it has done in years gone by. Already we are seeing a large rise in new unemployment claims, and the initial March report indicated jobless numbers have shot up to 8.7 percent.

The current fear is that the damage to the economy will be more severe than initially presumed, as indicated by the concerning unemployment figures coming out of the US which revealed that the number of new jobless claims rose by 6.65 million in the last week of March alone – by far the worst print in US history (Goldman Sachs had predicted 2.25 million, which would still have been the worst in history). If this trend continues the Fed may have to look at other options to prevent a collapse in demand in the US economy, which could potentially knock USD from its safe haven perch.