

CURRENCY FORECAST

APRIL 2021



MARCH REVIEW

POUND STERLING

Overall, the Pound performed well last month, with GBP/EUR climbing to a 9-month high of €1.17, although it fared less well against a strengthening US Dollar, falling by two cents to \$1.38. Tensions between the UK and the EU flared-up after European Commission President Ursula von Der Leyen threatened to block the export of at least 19 million AstraZeneca-manufactured vaccines to the UK. As a result, Sterling suffered due to fears the UK vaccine rollout could begin to slow, with AstraZeneca vaccines being crucial to continuing the nation's inoculation programme. The EU, however, stopped short of an export ban, and news that the UK was seeing falling infection rates allowed Sterling to strengthen once again.

There was no movement from the Bank of England (BoE) when it convened to set interest rates, opting to keep them at a record low of 0.1 percent. BoE governor Andrew Bailey said he was "more positive" about the UK economic outlook and expected growth to pick up sooner than anticipated, adding that the Bank had not "run out of firepower" while refusing to rule out negative rates. The expected quickening of economic growth, the Bank explained in a note, was down to US president Joe Biden's \$1.9 trillion stimulus, as well as an extension of the UK job retention scheme.

Nevertheless, despite this upbeat message from the BoE, UK growth posted a 2.9 percent contraction in January as the lockdown took its toll on businesses and trade. This in itself was considered to be better than expected, and the BoE is still targeting a 2 percent rate of inflation later in the year due to rising oil and energy prices.

Versus the Euro the Pound started off March trading at around €1.16 and rose unevenly to a high of €1.17 by the end of the month.

Against the US Dollar the Pound began the month at a rate of \$1.39 but had fallen to a rate of \$1.38 by the end of March.

EURO

The Euro spent another month struggling against other currencies as a fresh wave of Covid-19 cases rippled across the European continent and the vaccine row with the UK helped to undermine confidence in the Eurozone economy. Growth data from the fourth quarter seemed to underline the challenge faced by the bloc as a 0.7 percent decline in GDP was revealed.

What's more, German retail sales slipped by a sizeable 8.7 percent in January, adding to fears that Eurozone consumers are failing to help pull the bloc out of recession.

The European Central Bank (ECB) continued to hold rates at zero percent, saying that it would ramp up bond buying to help combat surging yields.

In addition, outgoing ECB policymaker Vitas Vasiliauskas said the central bank would likely continue stimulus measures even after the threat of coronavirus has passed, warning that monetary tightening must not occur prematurely. Currently, the €1.85 trillion pandemic emergency purchase program is set to run for at least another year.

Meanwhile the latest flash PMI survey suggests there is some potential relief for Euro investors as it was revealed economic activity was picking up. The Eurozone composite index posted a figure of 52.5 for March, indicating a modest return to growth. Nevertheless, Chris Williamson, the Chief Business Economist at IHS Markit, added a note of warning, saying:

"The eurozone economy beat expectations in March, showing a much better than anticipated expansion thanks mainly to a record surge in manufacturing output."

"The outlook has deteriorated, however, amid rising COVID-19 infection rates and new lockdown measures. This two-speed nature of the economy will therefore likely persist for some time to come, as manufacturers benefit from a recovery in global demand but consumer-facing service companies remain constrained by social distancing restrictions."

The Euro closed March down against many of its peers as the Eurozone's largest economies – France and Germany – faced a new wave of Covid-19 cases which dented confidence in a cautious reopening over the first months of spring, with France entering another month-long period of lockdown at the start of April.

UNITED STATES DOLLAR

The US Dollar continued to strengthen throughout March, with the US Dollar Index (DXY) rising from 90.8 to over 93 over the period – a four-month high. A combination of rising global risk, as well as an expected growth differential between the US and Europe has been driving the rise. Furthermore, higher yields of US Treasury Bonds have been causing investors to purchase the assets, adding to the upside momentum of the Greenback.

March saw the legislative passing of President Joe Biden's \$1.9 trillion stimulus plan to rescue America's struggling economy from the Covid-19 pandemic fallout. As a result, this initially weakened demand for the safe-haven US Dollar as investors saw the global economy also benefitting from the wave of new money. However, Dollar gains steadily returned as fears crept back in about Europe's impending third wave of Covid-19 infections and the growth deficit this is likely to cause. Adding to the sense of global unease, and therefore dampening risk appetite, was a container ship becoming lodged sideways in the Suez Canal and blocking billions of Dollars of goods from making their way to market. The ship was eventually dislodged after a week on March 29 and the canal reopened to trade, although there will almost certainly be ramifications for just-in-time delivery systems in its wake as congestion issues hit ports in Europe and Asia.

On the economic data front, 1 March saw the release of February's latest ISM Manufacturing PMI, which beat forecasts to come in at 60.8. This bolstered confidence in the US economic turnaround. At the same time, initial jobless claims continued to drop, improving confidence in the vitality of the US labour market. As if to underline this, nonfarm payrolls for the month of February also came in above forecasts at 379,000. Robert Alster, CIO at investment management firm Close Brothers Asset Management, commented on the data, saying: "The dramatic increase in nonfarm payroll figures is a sign of progress as Biden completes his sixth week in office. However, it comes after a relatively weak ADP reading for private payroll figures earlier in the week, painting a picture of a labour market of two halves. Wage inflation remained steady – growth looks somewhat unlikely as lower-paid workers re-join the payrolls in the coming months as hospitality and retail sectors open up."

US-China trade tensions also returned in March with US Secretary of State Antony Blinken saying that relations between the world's two largest economies had become "increasingly adversarial". At the same time, the US government – along with Canada, and the European Union – condemned human rights violations in Xinjiang, leading to a war of words between US and Chinese government officials reminiscent of former president Donald Trump's tenure. This consequently weakened demand for risk sensitive currencies and drove up the appeal of safe-havens like the Greenback. As a result, GBP/USD slipped back three cents over the month, putting paid to the pairing's bull run which had persisted since March 2020.

KEY DATES IN APRIL

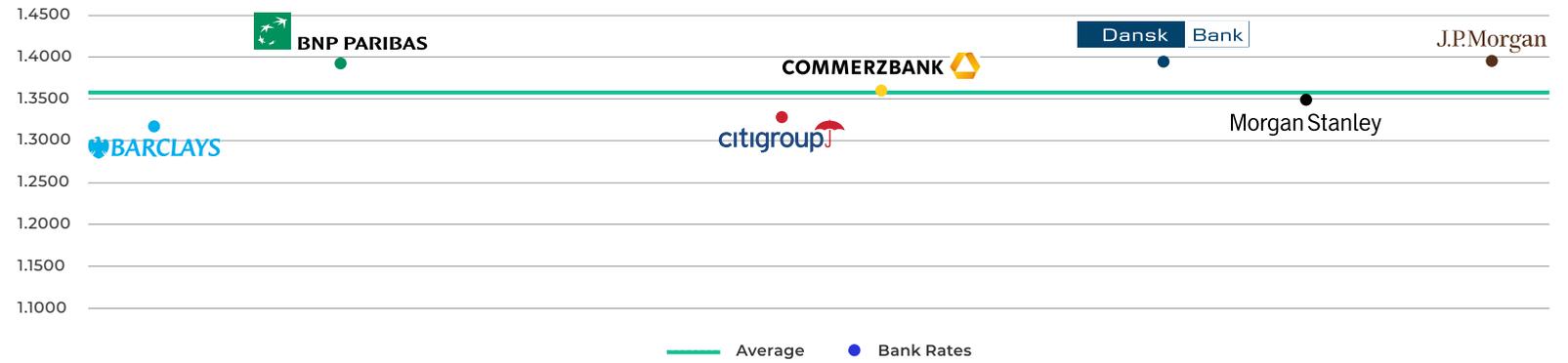
UNITED KINGDOM	
7 April	Markit Services/Composite PMI
8 April	Construction PMI
12 April	GDP Growth Rate
20 April	Unemployment Rate
21 April	Core Inflation Rate
23 April	GfK Consumer Confidence

EUROZONE	
6 April	Unemployment Rate
12 April	Retail Sales Data
14 April	Industrial Production
16 April	Core Inflation Rate
22 April	ECB Interest Rate Decision
23 April	Markit Services Flash

UNITED STATES	
1 April	Markit Manufacturing PMI Final
2 April	Unemployment Rate
2 April	Non Farm Payrolls
5 April	Markit Services PMI Final
13 April	Core Inflation Rate
28 April	Fed Interest Rate Decision

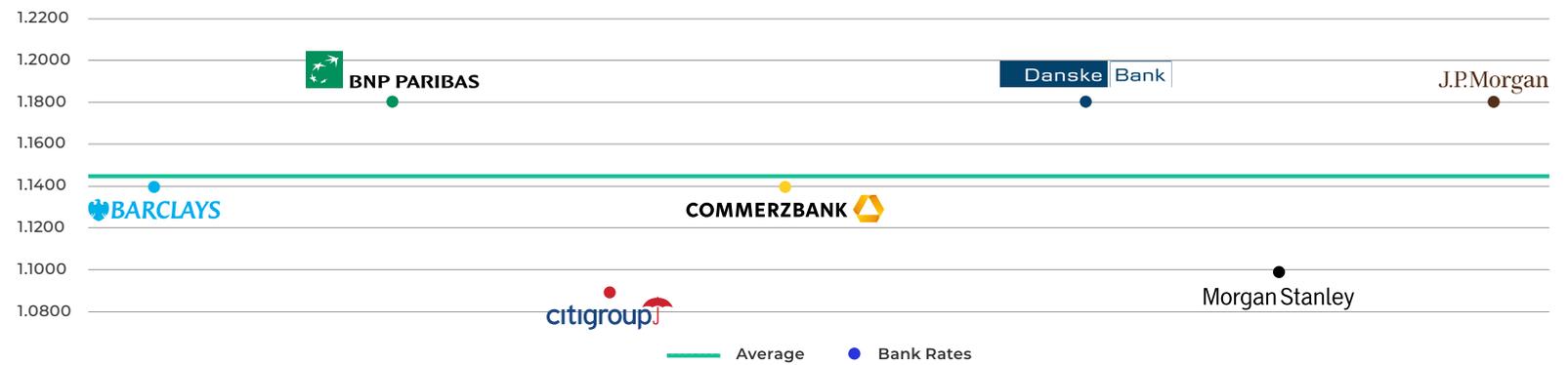
GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.3200
BNP Paribus	1.3900
Bank of America	N/A
Citigroup	1.300
Commerzbank	1.3600
Danske Bank	1.3900
JP Morgan	1.3900
Morgan Stanley	1.3500



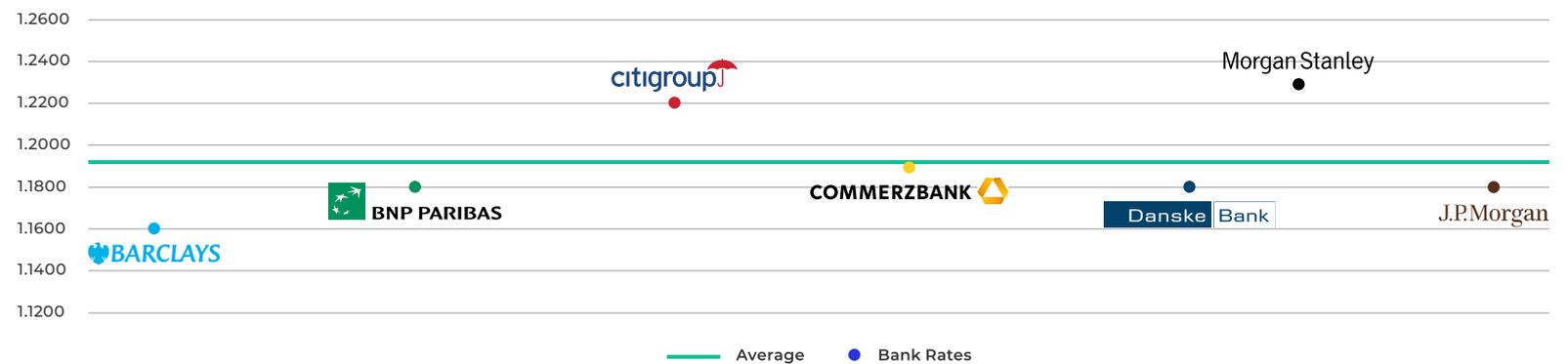
GBP/EUR TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1400
BNP Paribus	1.1800
Bank of America	N/A
Citigroup	1.0900
Commerzbank	1.1400
Danske Bank	1.1800
JP Morgan Chase	1.1800
Morgan Stanley	1.1000



EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1600
BNP Paribus	1.1800
Bank of America	N/A
Citigroup	1.2200
Commerzbank	1.1900
Danske Bank	1.1800
JP Morgan	1.1800
Morgan Stanley	1.2300



APRIL RISK EVENTS AND KEY THEMES

UNITED KINGDOM

Easing Covid-19 restrictions: March saw some Covid-19 related restrictions lifted in the UK, and this process is expected to continue in April.

The beleaguered hospitality sector will begin to open up again on 12 April, providing a much-needed shot in the arm for the UK economy and bolstering expectations of a robust rebound in the second quarter. A combination of falling virus cases and a ramping up of economic activity will likely be what is needed to keep the Pound on top of its recent gains.

Unemployment: The UK's jobless figures unexpectedly came in at 5 percent in March, which was lower than expected. Economists will be keen to see whether this figure has risen when new numbers come out on 20 April. Unemployment remains near a five-year high, and the effects of the recent lockdown will start to become apparent as the hospitality sector reopens and some staff return from furlough.

Q3 GBP/USD bank averaged forecast: 1.36

EUROZONE

Eurozone Covid-19 vaccination update: Focus will remain on the availability of vaccines for Europeans, as well as the uptake in vaccination levels. Currently, the bloc is falling behind other countries, with only a fraction of adults being vaccinated, raising concerns that the Eurozone economy will remain hostage to future outbreaks.

With a third wave of cases being reported in France and Germany, the Euro is likely to remain under pressure for the immediate future unless vaccine uptake improves. The European Central Bank's president, Christine Lagarde, so any upbeat comments about the outlook for the economy for spring and beyond are likely to be EUR-positive, especially if they involve stimulus talk.

Q3 GBP/EUR bank averaged forecast: 1.14

UNITED STATES

Infrastructure spending plans: More details of President Joe Biden's massive \$2 trillion Covid-19 stimulus plan will be unveiled in the first few days of April, with expectations running high that federally financed projects will inject new life into the economy.

The money will be targeted at infrastructure, climate change and social projects, with projects such as upgrading highways, boosting internet access in rural areas and putting more money into the Amtrak train network.

It is expected that Biden's newest stimulus plan will cost between \$3 to \$4 trillion when add-ons are taken into account, and hefty tax rises are expected to be announced at the same time in order to pay for it.

Oil price: Today will see a meeting of the Organisation of Petroleum Exporting Countries (OPEC) and Russia to discuss a possible output cut.

Oil prices have been climbing over the last month, with WTI crude trading just shy of \$60. If a cut in production is agreed it could send oil prices sharply higher, which would likely strengthen USD as most oil is traded in Dollars.

Q3 GBP/USD bank averaged forecast: 1.36

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