

# CURRENCY FORECAST

## AUGUST 2020

### JULY REVIEW

#### POUND STERLING

July saw the Pound strengthen markedly on FX markets, despite a lack of positive economic drivers that would otherwise support the currency. Brexit negotiations between the UK and the EU remained at an impasse, while more regional lockdowns were put in place following localised increases in coronavirus cases. In spite of ongoing weak UK economic data, markets viewed the Pound as oversold against other currencies, lending strength to Sterling. At the same time, the Bank of England left interest rates unchanged in July, although the asset purchase scheme continues apace.

Nevertheless, while the British currency strengthened against nearly all major rivals it was against the US Dollar that it performed best, rising 4.8 percent over the course of the month and breaking through a key resistance barrier. This performance was more a reflection of Dollar weakness than Pound strength however, with a number of factors converging to hammer the Greenback. The result of this was that GBP/USD began the month at \$1.25 and ended it at \$1.31.

Against the Euro, the Pound fluctuated over the month but ultimately ended up unchanged at a rate of €1.11. At first glance this could be considered surprising given the Euro's ongoing bull run which has seen it touch multi-month highs.

Meanwhile, global risk sentiment remained relatively unchanged, despite headlines proclaiming a surge in new Covid-19 cases, and an escalation in the war of words between the US and China over political and trade issues.

#### EURO

The Euro continued to surge in July, moving higher against almost all major currencies, although it held steady against the Pound. In the last 100 days EUR has climbed 10 percent against the Greenback, posting a 3 percent rise in July alone.

This steady rise has produced speculation that the European Central Bank (ECB) could intervene to prevent the single currency strengthening further in order to halt damage to exports and competitiveness. As yet it has said nothing. Another major factor that caused investors to buy EUR was the signing of a €750 billion stimulus package by EU countries – something that had hung in the balance in June on fears it could be shunned by member states.

European ecostats continued to underwhelm in July, with Germany revealing a 10.1 percent slump in economic activity in the second quarter, and other EU members posting similar slumps. Despite this, markets chose to focus on the forward-looking PMI stats, which revealed positive growth across the board for the first time since February. Combined with the ongoing slump seen in USD, this helped EUR to rise further.

Against the Pound the Euro mostly traded sideways, starting off July at €1.11 and ending at the same rate. Whether the Euro can continue on its recent bullish run throughout August will likely depend on global risk assessment, as well as what – if any – action the ECB takes to limit its trajectory.

#### UNITED STATES DOLLAR

It has been a dramatic month for the US Dollar which has seen a narrative emerge that questions the currency's safe haven status. The Greenback continued on its steep downward trajectory over the course of July, even picking up a little pace. By way of illustration, three months ago the US Dollar index stood at almost 104, yet by the end of July it was down almost 11 percent at just over 93. Traders are asking: what is going on? In fact, the reasons for this ongoing selloff can be boiled down to three main factors: a resurgence in the number of Covid-19 cases across America, ongoing poor economic data, and worries about political stability in the run up to the presidential election. Although the Federal Reserve is continuing with its massive bond buying programme – the Fed's balance sheet now stands at over \$7 trillion, up from \$3 trillion in March – the scale of the problems besetting the US at present mean the liquidity injection is having little effect on shoring up USD. In particular:

**Disappointing ecostats:** figures out at the end of July showed the US economy had contracted at a rate of 32.9 percent in Q2, which would translate to an annualised hit of almost 10 percent were this rate to continue. While the figure was anticipated to a certain extent it underlined the seriousness of the situation facing the US economy as it tries to regain traction following the virus-related shutdowns.

**Political ructions:** with the November US presidential election looming ever closer, jitters about the possible result remain elevated across markets. Suggestions that Donald Trump could postpone the vote unless potential voter fraud is rooted out led to a spike in fear levels, sending USD lower.

**Resurgent Covid-19 cases:** there has been an uptick in the number of positive virus cases detected across the US, with the states of Florida, California and Arizona showing the biggest rises. This has led investors to fear a new series of lockdown across the US, a move that would no doubt derail any economic recovery.

The Fed opted to keep interest rates at near zero stating, "Economic activity and employment have picked up somewhat in recent months but remain well below their levels at the beginning of the year." For this reason, Fed Chair Jerome Powell is continuing to back the policy of purchasing Treasury bonds and mortgage-backed securities for at least another month. GBP/USD hit a high of \$1.31 by the end of July, having started off the month at \$1.25 – a rise of 4.8 percent.

### KEY DATES IN AUGUST

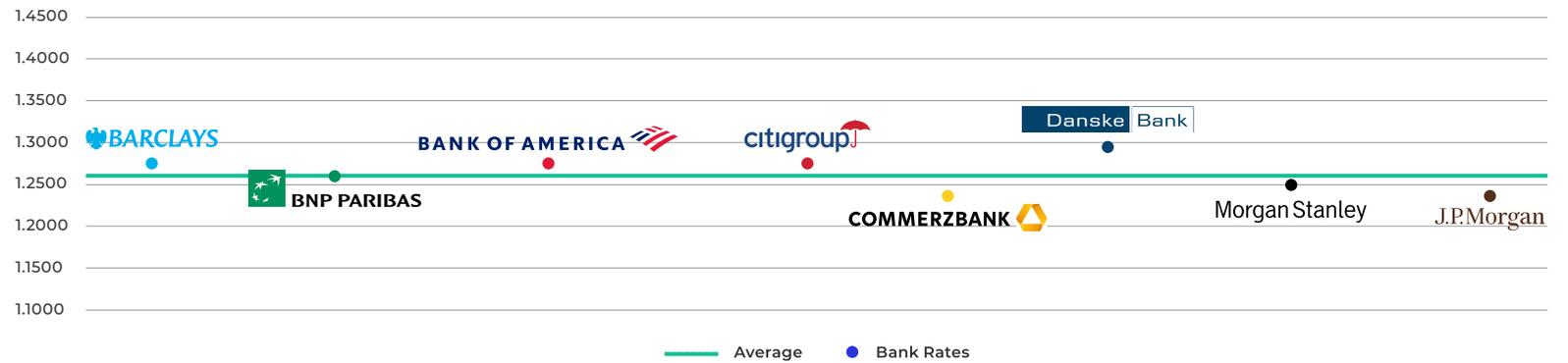
UNITED KINGDOM	
5 August	Markit Services/Composite PMI
6 August	BoE Interest Rate Decision
12 August	GDP Growth Rate (Q2)
12 August	Industrial Production (June)
19 August	Core Inflation Rate (July)
20 August	Retail Sales Data (July)

EUROZONE	
5 August	Markit Services/Composite PMI
5 August	Retail Sales (June)
14 August	GDP Growth Rate (Q2)
19 August	Core Inflation (July)
21 August	Services/Composite Flash PMI

UNITED STATES	
5 August	Markit Services/Composite PMI
6 August	Initial Jobless Claims (August)
7 August	Non-Farm Payrolls (July)
14 August	Retail Sales (July)
27 August	GDP Growth (Q2) 2nd Estimate

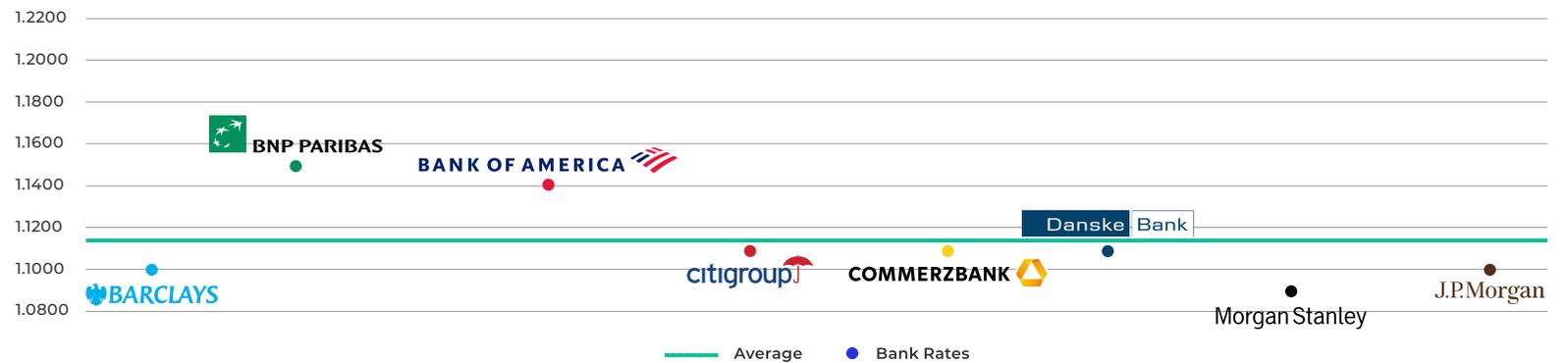
## GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.2700
BNP Paribus	1.2600
Bank of America	1.2700
Citigroup	1.2700
Commerzbank	1.2400
Danske Bank	1.2900
JP Morgan	1.2400
Morgan Stanley	1.2500



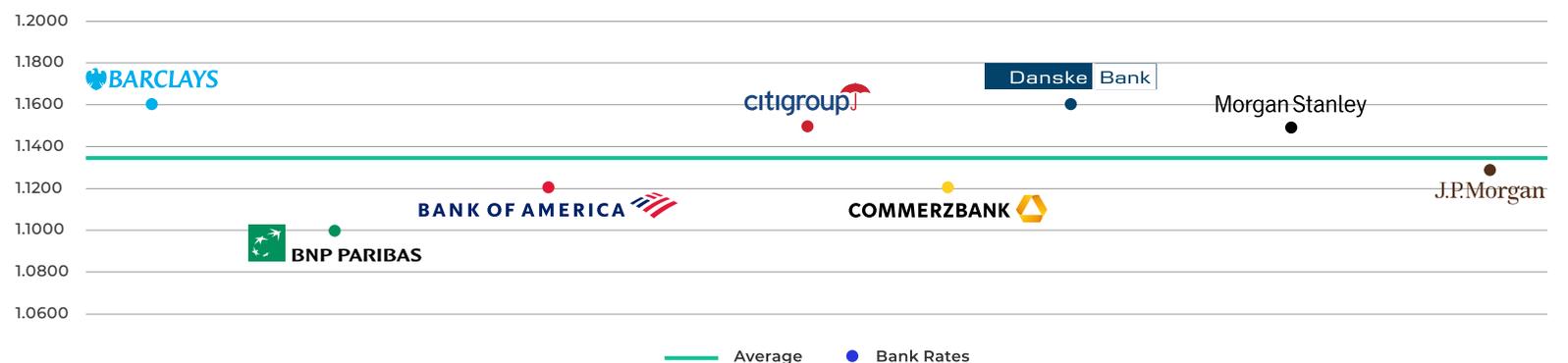
## GBP/EUR TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1000
BNP Paribus	1.1500
Bank of America	1.1400
Citigroup	1.1100
Commerzbank	1.1100
Danske Bank	1.1100
JP Morgan Chase	1.1000
Morgan Stanley	1.0900



## EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1600
BNP Paribus	1.1000
Bank of America	1.1200
Citigroup	1.1500
Commerzbank	1.1200
Danske Bank	1.1600
JP Morgan	1.1300
Morgan Stanley	1.1500



## AUGUST RISK EVENTS AND KEY THEMES

### UNITED KINGDOM

**Economic recovery in focus:** Second quarter GDP results will be published on August 12, with investors seeking signs that the UK economy is finally starting to recover from the economic hit it has sustained. But with news of more potential lockdowns, and with government advice changing on a daily basis, GBP investors could lose patience with the recently strengthened Pound. Direction may come from the Bank of England which will be releasing its latest economic forecast on August 6, as well as announcing its latest policy decisions (although no change in interest rates is expected).

**Brexit talks:** Discussions over a future trade deal between the UK and EU have so far proved fruitless, but talks are set to resume on August 17. At present, according to forecasters, there is little hope of a trade deal being struck before September, with fishing rights currently proving to be a stumbling block.

Formerly, UK Prime Minister Boris Johnson had pledged a trade deal would be struck by July. Clearly this hasn't happened, and the more it seems that the UK is heading for World Trade Organisation rules the more pressure we can expect to see on the Pound going forwards into Autumn.

**Q3 GBP/USD bank averaged forecast: 1.2613**

### EUROZONE

**Eurozone growth outlook:** The pace of economic recovery in the Eurozone will be a key driver for Euro exchange rates over the coming month. Going by July's flash PMI results, Europe is on course for something approximating a 'V' shaped recovery if trends continue. Nevertheless, a lot will depend on the rate of new Covid-19 infection rates across the Continent, and government policy reaction.

Should further draconian measures be enacted to curb the spread, and economic shutdowns re-commence, the Euro rally may run out of steam. Although confidence in the EU received a boost when the ECB's stimulus package was approved, this could prove to be fragile if political squabbles break out over how the stimulus should be spent.

**What is the ECB's next policy move?** Having agreed on a huge stimulus package of €750 billion, EU members will now be looking towards the ECB to see if it enacts any policy measures to limit the rise of the Euro. The intensifying upward trend of the single currency is causing concern for Eurozone exporters, who fear a loss of competitiveness, yet if the US Dollar continues to weaken we can expect to see more upward pressure on Euro rates. At the same time, changes in risk sentiment have the power to propel the Euro either up or down, with markets looking to Covid-19 related news, the ongoing US-China dispute, and US political and social factors to assess risk levels.

**Q3 GBP/EUR bank averaged forecast: 1.1138**

### UNITED STATES

**Ongoing Dollar devaluation?** Should the US Dollar continue to weaken due to the combined factors of economic weakness, political paralysis and virus-related headlines, we can expect to see widespread ramifications throughout FX markets. The USD Index has already fallen 10 percent since March, and 3 percent on the year. The key question is whether rising global risk is met with higher Dollar inflows or not. Any decoupling between risk and USD would potentially mean USD weakness becoming self-perpetuating. The situation is by no means clear at present although it should become clearer as the month progresses.

**What are the political risks in the region?** Deteriorating relations with China following the closing of consulates in Houston and Chengdu could escalate further in August, potentially having an effect of USD rates. At the same time, domestic political issues are at the fore with President Trump under fire for suggesting a postponement of the election, as well as his handling of the virus crisis, all of which could prove to be Dollar-negative. On the other hand, if US data shows signs of improvement and the recent rally on Wall Street cools we could see a halt in the downward trend of USD.

**Q3 GBP/USD bank averaged forecast: 1.2613**

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