CURRENCY FORECAST
JANUARY 2021

currency solutions

DECEMBER REVIEW

POUND STERLING

December saw the Pound accelerate as it became clear that a Brexit agreement would be reached with the EU. It was on 24 December that Boris Johnson announced that negotiators had worked late into the night to secure a deal. Although the accompanying document outlining the deal was some 1,200 pages long, the key aspects of it are as follows:

- There will be no tariffs or quotas between the EU and the UK from 1 January
- Some new border checks will be introduced, such as safety checks and customs declarations, but this should not impede the flow of goods
- Some new restrictions of UK animal food products will be introduced, with a particular emphasis on frozen meat products
- Financial services companies will no longer have the automatic right to access EU markets
- Professional qualifications gained in the UK will no longer be automatically recognised
- UK nationals will need a visa to stay more than 3 months in the EU at any one 180-day period
- The UK will gradually gain a greater share of fish from its waters over the next five-and-a-half years
- The European Court of Justice (ECJ) will not have jurisdiction over the UK
- The UK does not have to comply with EU data protection standards
- The UK will no longer take part in the Erasmus exchange student programme

As the deal was announced the Pound strengthened modestly against most currencies, although the bulk of the gains occurred after Christmas partly as a result of many traders being away from their desks over the festive period. By the New Year, GBP/USD had broken through a key resistance level of $1.3622, rising as high as $1.37.

December wasn't all about Brexit, however, a mutant strain of the coronavirus was discovered in the UK, which soon led to a tightening up of the tiers and the introduction of a new – harsher – Tier 4 applying to London and large areas of the South East. The effect on the economy was immediately felt by the hospitality, retail and travel sectors, although the knock-on damage to the UK economy as a whole will not be immediately clear.

In response to the new lockdown measures, the Confederation of British Industry (CBI) warned that a new recession was possible unless the government provided more direct support to businesses. It is estimated that the UK High Street lost 177,000 jobs in 2020, according to a report by the Centre for Retail Research, with a further 200,000 losses on the cards for early 2021.

Versus the US Dollar the Pound started off December at $1.34 and rose to $1.37 by the end of the month after the Brexit trade deal had been signed off in Parliament.

It was a similar dynamic against the Euro, with the Pound climbing from €1.11 to €1.13 by the beginning of the New Year.

Overall, Sterling strengthened by over 2 percent in 2020, against a basket of currencies.

KEY DATES IN JANUARY

UNITED KINGDOM	
6 January	Markit Services/Composite PMI
7 January	Construction PMI (December)
15 January	GDP Growth Rate (November)
20 January	Core Inflation Rate (December)
22 January	Retail Sales Data (December)
26 January	Unemployment Claims

EUROZONE	
5 January	M3 Money Supply (November)
7 January	Retail Sales (December)
8 January	Unemployment Rate
13 January	ECB Industrial Production
22 January	Markit Composite PMI Flash
28 January	Ecomomic Sentiment Index

UNITED STATES	
6 January	US Electoral Presidential Vote
8 January	Average Earnings (December)
8 January	Nonfarm Payrolls (December)
13 January	Core Inflation Rate (December)
27 January	Fed Interest Rate Decision
28 January	GDP Growth QoQ Advance (Q4)

EURO

For the most part, the Euro performed well in December against its peers, gaining 2 cents against the US Dollar before falling back again. Nevertheless, EUR ended 2020 on a high note, having gained more than 9 percent against USD in 2020, finishing on $1.21.

News that the US Senate had delayed a decision on increasing coronavirus relief payments was seen as the main driver for the Dollar falling back, although the Brexit deal also added to Euro strength.

Although there was a general strengthening trend for the single currency, the Euro did not fare too well against the Pound, slipping over the course of December.

Markets were relieved that – finally – a comprehensive Brexit deal had been struck that allowed both parties to trade smoothly, although much of the premium had already been factored into the Pound by the time the deal was made. Nevertheless, Sterling was able to take further advantage of the news, advancing against the Euro and moving from €1.11 to €1.13.

Earlier on in December, European Central bank (ECB) president Christine Lagarde had indicated that it was "up to politicians" to stimulate the Eurozone economy. Her words were taken as confirmation that the ECB was becoming hesitant about launching more long-term financial stimulus, even though Lagarde had earlier stated that emergency stimulus measures would continue for as long as necessary.

Markit PMI figures continued to paint a fragile case for withdrawing stimulus, with both services and composite figures coming in at under 50, although manufacturing did bounce back to 55 in December.

Against the Pound, the Euro started and ended December at £0.90, although it spiked to £0.92 over Christmas.

UNITED STATES DOLLAR

The US Dollar failed to break out of its bearish streak in December, falling against both the Euro and the Pound.

Vaccine news further sought to increase global risk appetite, meaning the Dollar faced continued headwinds. The US Dollar Index (DXY) slipped below 90 for the first time since April 2018, ending the year 6 percent lower than it started.

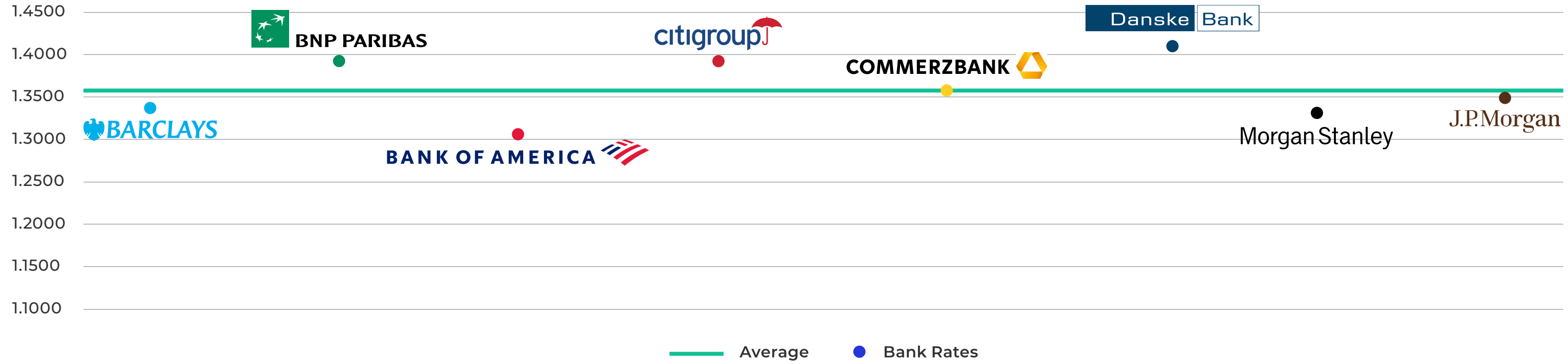
The main factor holding back the greenback as 2020 drew to a close was a standoff over funding for a relief package, which included direct coronavirus compensation disbursements.

The Covid Relief Bill amounts to $892 billion and would see every US citizen being given $600. However, President Trump said he wanted to see that figure expanded to $2,000, saying that $600 was "ridiculously low". The president eventually backed down and signed the bill, immediately propelling US stock indices to record highs, but impacting the Dollar.

Against the Pound, the US Dollar entered December at a rate of £0.75, but by 1 January that had slumped to £0.73.

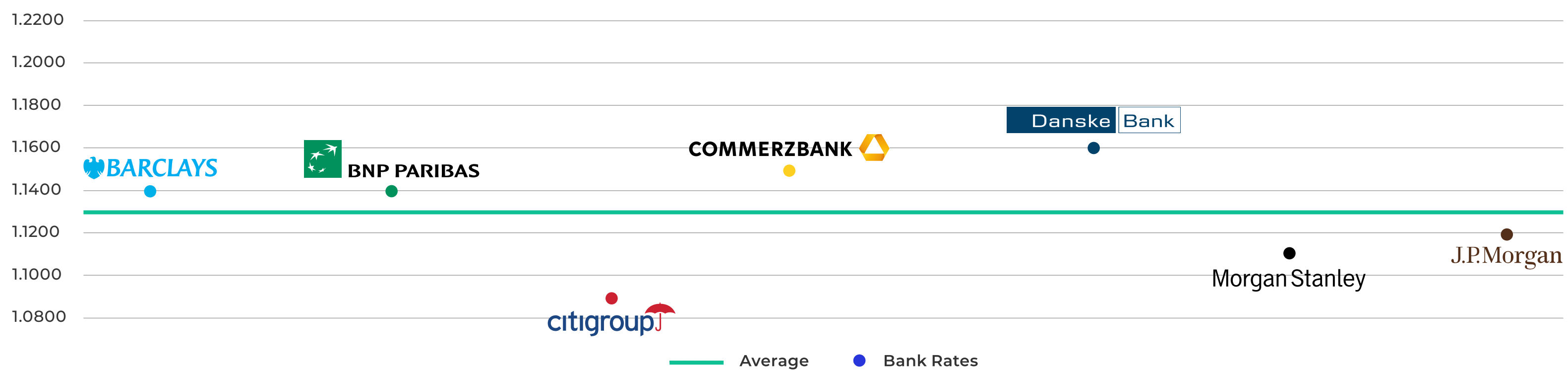
GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.3400
BNP Paribus	1.3900
Bank of America	1.3100
Citigroup	1.3900
Commerzbank	1.3600
Danske Bank	1.4100
JP Morgan	1.3500
Morgan Stanley	1.3300



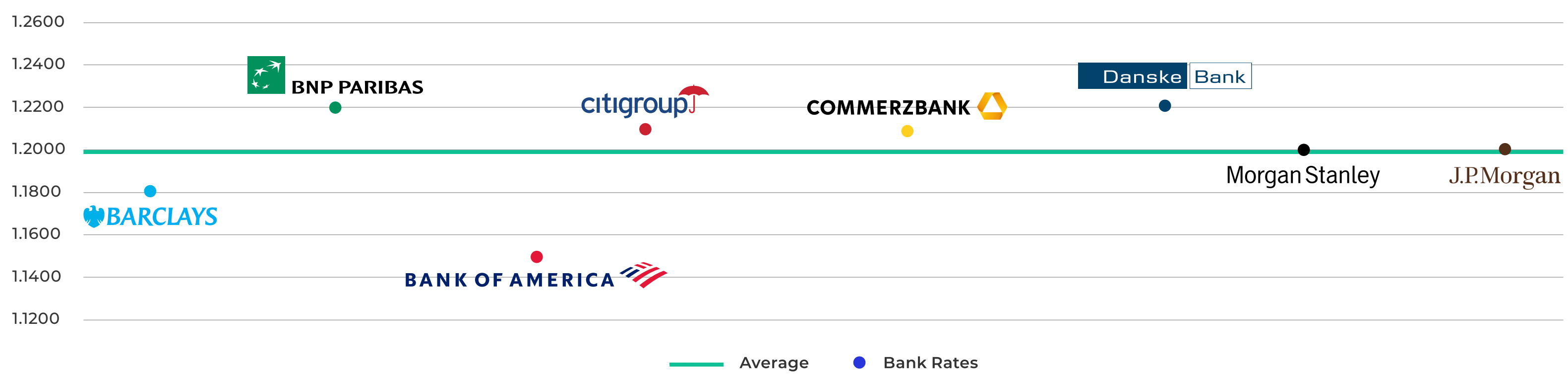
GBP/EUR TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1400
BNP Paribus	1.1400
Bank of America	N/A
Citigroup	1.0900
Commerzbank	1.1500
Danske Bank	1.1600
JP Morgan Chase	1.1200
Morgan Stanley	1.1100



EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1800
BNP Paribus	1.2200
Bank of America	1.1500
Citigroup	1.2100
Commerzbank	1.2100
Danske Bank	1.2200
JP Morgan	1.2000
Morgan Stanley	1.2000



JANUARY RISK EVENTS AND KEY THEMES

UNITED KINGDOM

EU trade talks ongoing: Although a Brexit deal was struck at the 11th hour, and the UK has now left the EU, there are still a number of trade issues to iron out, meaning talks will be ongoing. These talks will revolve around the terms of trade between the two trading partners and a number of contentious issues that still need to be addressed, including various customs issues and protocols for allowing the smooth transit of goods to and from the EU. Any serious disagreements here could have a negative impact on the Pound.

Speed of the vaccine rollout: The speed with which the Covid-19 vaccines are rolled out across the nation will likely dictate the pace that economic activity picks up again in the first quarter. At present it will take until Easter at least until most of the vulnerable groups of people have been vaccinated, meaning the UK could be in a state of continued lockdown until then. The extent of the economic damage that is incurred over this period is likely to hold back Sterling.

Q3 GBP/USD bank averaged forecast: 1.36

EUROZONE

New trade deal with the UK: Now that the terms of the Brexit divorce have been agreed, and trade has started to take place across the new border, January will be the month when we see if there are any hitches in the arrangements. First indications are that goods have been flowing unimpeded, but as volume increases over the next few weeks we will discover whether the new security and customs systems are up to the job.

If there is any repeat of the kind of backlog which saw truckers stranded in late December, there could be political implications which may affect the Euro.

Vaccine rollout delay to limit economic recovery? The EU is struggling to approve a vaccine for use, with calls for both the Oxford-AstraZeneca and Pfizer-BioNTech vaccines to be fast-tracked for approval. Individual nations have a say on whether any vaccine can be approved, meaning the process is subject to holdups.

As the economic rebound depends to a large extent on the speed of the vaccine rollout there is concern that any further delays will stymie the recovery and put pressure on the Euro.

Q3 GBP/EUR bank averaged forecast: 1.13

UNITED STATES

US prepares for new administration: On 6 January the Electoral College votes to formally decide the result of the 2020 election. As it stands, Joe Biden is set to assume the presidency on 20 January, when Donald Trump will leave the White House. Although it should just be a formality, a number of Republican senators have indicated they will object to the result, meaning further complications could ensue.

If this is the case there could be some support for the Dollar on heightened risk expectations, although at present there is nothing to indicate that this could be a likelihood.

Federal Reserve's next move: With the Fed now in 'extreme easing' mode, and having adjusted its inflation target to 2 percent, it is likely that the Dollar weakening trend established in 2020 will continue into 2021. In the last year the Fed has provided around $3 trillion in liquidity, backstopping risk for investors as the Covid-19 induced economic storm damaged the real economy.

Should this continue into this year, and there is no reason to suspect that it will not, the US Dollar will face the same pressure it faced last year.

Q3 GBP/USD bank averaged forecast: 1.36

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