

### MAY REVIEW

#### POUND STERLING

The Pound performed strongly against the US Dollar in May, hitting \$1.42 as improving risk sentiment limited the appeal of the safe-haven Greenback. At the same time, the GBP/EUR exchange rate edged higher, rising to €1.16 as confidence continued to grow in the British economy thanks to the further easing of lockdown restrictions. This comes despite worries about the spread of the Indian variant of Covid-19, which have sparked concerns that June's scheduled further easing of lockdown measures could suffer a delay.

The beginning of May saw the Pound strengthen on a better-than-expected manufacturing PMI for April. The figure rose above the expected 60.7 to 60.9, buoying optimism in the nation's economic recovery from the coronavirus pandemic. Rob Dobson, the director at IHS Markit, which compiles the PMI statistics, was optimistic about the outlook for the manufacturing sector, saying: "Further loosening of COVID-19 restrictions at home and abroad led to another marked growth spurt at UK factories. The headline PMI rose to a near 27-year high, as output and new orders expanded at increased rates. The outlook for the sector is also increasingly positive, with two-thirds of manufacturers expecting output to be higher in one year's time."

The UK's sizeable services sector also performed strongly in May, with the PMI figure rising to 61 despite more conservative estimates. Meanwhile, the Bank of England (BoE) confirmed expectations by holding interest rates at 0.1 percent. Nevertheless, its forecast for the economy was stronger in every respect thanks to growing confidence in the UK's jobs sector and the ongoing vaccination rollouts. BoE governor, Andrew Bailey, made some hawkish comments, saying that the nation's economic recovery was "very good news" for businesses.

Meanwhile, the latest GDP figure for the first quarter revealed a -1.5 percent contraction. Despite this, the chancellor Rishi Sunak was optimistic, saying evidence points to a boom in spending as consumers rush to spend their savings: "Despite a difficult start to this year, economic growth in March is a promising sign of things to come. Our plan is working, consumers have built up savings. And what we now know, which we didn't know a year ago, (is) that actually as things open up, people do want to get out and go back to doing the things that they used to do, and I think we will see that in the coming weeks and months."

Unemployment continued to fall, with the ILO unemployment rate statistics falling below consensus to 4.8 percent as Britain's businesses began rehiring. Later in May, the UK manufacturing and services PMI remained strong, with Sterling backers becoming increasingly optimistic after it was announced that vaccinations were effective against the Indian variant of Covid-19.

Versus the Euro the Pound started off May trading at around €1.15 and rose unevenly to a high of €1.16 by the end of the month. Against the US Dollar the Pound began the month at a rate of \$1.38 but soared to a high of \$1.42 by the end of May.

#### EURO

The Euro also performed more strongly in May thanks to the EU's intensified vaccine rollout efforts. As a result, major economies in the Eurozone such as Germany and France have been able to cautiously ease lockdown restrictions, allowing businesses to reopen and the economy to continue its recovery.

The latest German retail sales for March further buoyed optimism surrounding a rebound as the figure soared by 11 percent. Eurozone PMI data also remained strong, with the flash PMI composite for May beating forecasts and rising from 53.8 to 56.9. Chris Williamson, chief business economist at IHS Markit, commented on the statistic:

"Demand for goods and services is surging at the sharpest rate for 15 years across the eurozone as the region continues to reopen from covid-related restrictions ... which has been accompanied by yet another near-record expansion of manufacturing."

German economic sentiment exceeded consensus expectations and rising to 84.4, while investor sentiment soared to its highest level since 2000. The easing of the third wave of Covid-19 caseload across Europe pointed to an uplift in confidence in the Eurozone economy, which was had been flagging at the beginning of the year. However, concerns over the spreading of the Indian variant dampened some of this economic confidence, limiting some of the single currency's gains against its peers. At the same time, it was revealed that France had fallen into recession unexpectedly after Q1 GDP growth was revised down from 0.4 percent to -0.1 percent.

The European Central Bank (ECB) maintained a dovish tone despite signs of Eurozone economic recovery. ECB policymakers that a rising level of inflation was likely 'transitory', limiting some of the appeal of the Euro.

#### UNITED STATES DOLLAR

The US Dollar struggled in May as improving risk sentiment limited demand for safe harbours. Surging inflation in the US economy hit its highest level in years, with one measure – the Core Personal Consumption Expenditures Index (PCE) hitting 3.1 percent in April – its highest rate since 1992.

Other measures showed similarly elevated levels, indicating inflation was heading above the Federal Reserve's target rate of 2 percent. Nevertheless, the Fed maintained a dovish stance, saying that soaring inflation was likely to be a 'transitory' affair. Richard Clarida, the vice chair of the Fed said: "We've been saying for some time that reopening the economy would put some upward pressure on the price level."

Inflation aside, confidence in the US economy remained high, but this failed to provide much support for the Greenback as investors sought out higher-yielding currencies. With global economic activity increasing throughout May, risk sentiment correspondingly improved, limiting demand for the US Dollar.

US manufacturing continue to improve because of rising domestic demand, but consumers were less confident about the economic outlook as a whole. Non-farm payrolls data for April also dampened economic sentiment, falling significantly below forecasts from 770,000 to 266,000 new jobs. Senior Economist at UOB Group Alvin Liew echoed the underwhelming nature of the stats, saying: "The US economy continued to add jobs in April but it was nonetheless a big disappointment as the US nonfarm payrolls (NFP) rose by just 266,000 jobs, well missing the Bloomberg median estimate of 1 million jobs. A further disappointment was the marked downward revision to the number of jobs gained in March to 770,000 (from the previous estimate of 916,000)."

The USD/GBP exchange rate also suffered as the improving outlook for the British economy strengthened the Pound against the US Dollar.

### KEY DATES IN JUNE

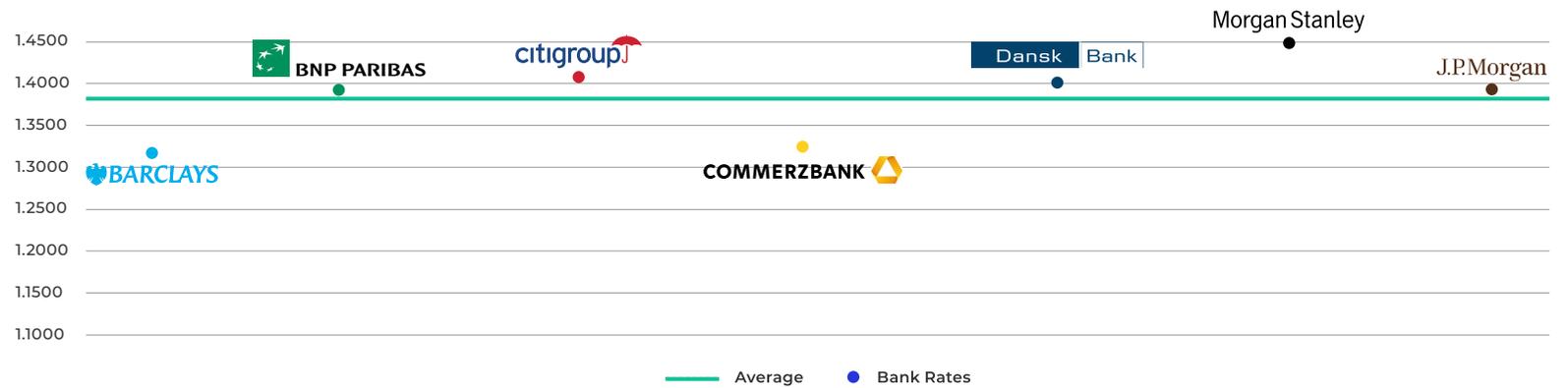
UNITED KINGDOM	
3 June	Markit Services/Composite PMI
11 June	GDP Growth Rate
15 June	Unemployment Rate
16 June	Core Inflation Rate
18 June	Retail Sales Data
25 June	GfK Consumer Confidence

EUROZONE	
1 June	Markit Manufacturing PMI
4 June	Retail Sales Data
8 June	GDP Growth Rate
14 June	ECB Industrial Production
17 June	Core Inflation Rate
24 June	ECB and EC General Meetings

UNITED STATES	
1 June	Markit Manufacturing PMI Final
4 June	Unemployment Rate
4 June	Non Farm Payrolls
10 June	Core Inflation Rate
15 June	Retail Sales Data
15 June	Fed Interest Rate Decision

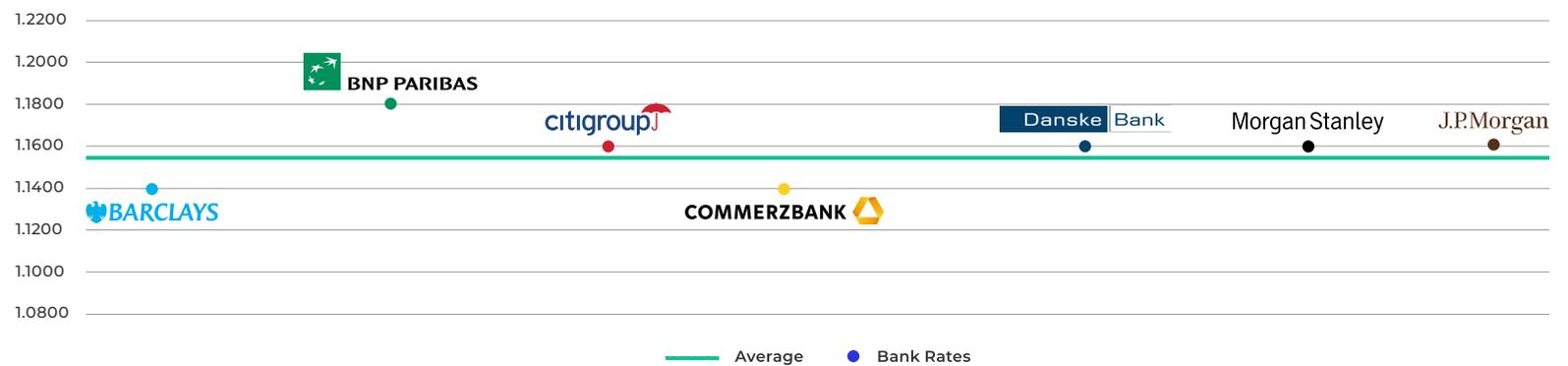
## GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.3200
BNP Paribus	1.3900
Bank of America	N/A
Citigroup	1.4100
Commerzbank	1.3400
Danske Bank	1.4000
JP Morgan	1.3900
Morgan Stanley	1.4500



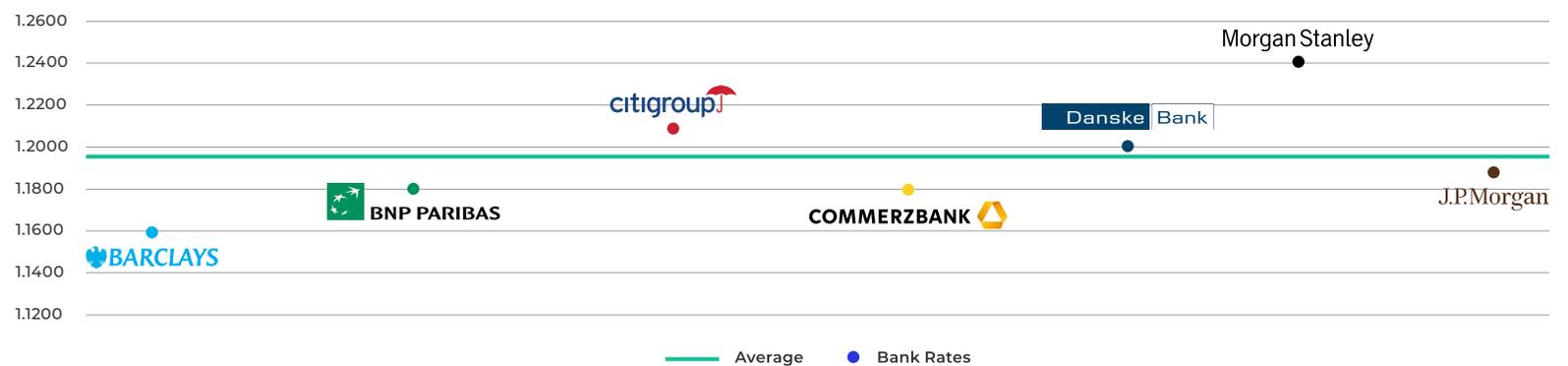
## GBP/EUR TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1400
BNP Paribus	1.1800
Bank of America	N/A
Citigroup	1.1600
Commerzbank	1.1400
Danske Bank	1.1600
JP Morgan Chase	1.1600
Morgan Stanley	1.1600



## EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1600
BNP Paribus	1.1800
Bank of America	N/A
Citigroup	1.2100
Commerzbank	1.1800
Danske Bank	1.2000
JP Morgan	1.1900
Morgan Stanley	1.2400



## JUNE RISK EVENTS AND KEY THEMES

### UNITED KINGDOM

**G7 Summit in Cornwall:** All eyes will be on the G7 summit in early June, taking part in the UK.

It is expected that UK PM Boris Johnson will announce a raft of allurements to cement the UK's reputation as a 'centre for the fourth industrial revolution' in a bid to attract inward investment and boost the profitability of UK plc.

Sterling could receive a direct boost from any such announcement.

**UK jobs data:** June will also see the release of the latest ILO unemployment rate report for April.

If joblessness continues to fall throughout the UK, then we could see the Pound begin to head higher against the Euro and the US Dollar.

Increased levels of employment would indicate that the UK economy is on a course to recovery in the second quarter of 2021.

**Q3 GBP/USD bank averaged forecast: 1.39**

### EUROZONE

**Eurozone PMI data:** Early in June will see the release of the latest and final PMI data for April. If this points to an improvement in the Eurozone's economy, then the Euro exchange rate would likely benefit.

Conversely, if data shows a slowing in Eurozone growth because of extended periods of lockdown in Germany and France, then we could see the single currency lose some of its recent gains.

**Eurozone GDP:** The latest Eurozone GDP figure will also influence Euro movement in June. Again, if this shows a marked improvement in the Eurozone's economy from the beginning of the year, then economic sentiment in the bloc would improve and help to drive up the single currency.

**Q3 GBP/EUR bank averaged forecast: 1.16**

### UNITED STATES

**Global risk sentiment:** The outlook for the global economy will continue to dictate the direction of the Greenback in June.

As a result, improving risk sentiment would further add downward pressure on the safe-haven US Dollar as investors become more hopeful about a stabilising world economy.

**US non-farm payrolls:** Inflation will remain in focus for US Dollar traders in June.

Any further indications that the Federal Reserve will retain their 'transitory' opinion of US inflation next month could further limit the US Dollar against the Pound and the Euro.

**Q3 GBP/USD bank averaged forecast: 1.39**

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