

CURRENCY FORECAST

MARCH 2021



FEBRUARY REVIEW

POUND STERLING

The Pound continued to strengthen on markets throughout February, hitting an almost 3-year high against USD, and an 11-month high against the Euro following improving sentiment regarding economic recovery and Prime Minister Boris Johnson's announcement of a lockdown exit strategy. Johnson said he was 'very optimistic' that all restrictions will end in England by 21 June. Additionally, February saw the UK's Covid-19 vaccination programme hit the 20-million milestone, which had the effect of reassuring Sterling traders that an economic rebound would take place sooner rather than later. Meanwhile, data revealed that UK GDP for the fourth quarter of 2020 had beaten forecasts, rising by 1 percent and avoiding the likelihood of a double-dip recession.

Overall, February saw Sterling benefit from steady progress in the Covid-19 vaccination rollout, a falling number of daily cases of the virus, and significant dips in hospital admissions. The government's more upbeat tone boosted confidence in the UK economy, the restrictions on which are expected to be lifted in stages from early this month.

February also saw the Bank of England (BoE) strike a markedly more upbeat tone despite expectations that the economy would suffer a contraction of 4 percent in the first three months of 2021 due to tighter lockdown restrictions. Consumer confidence has seen an uptick due to people's expectations of better economic conditions ahead, with the BoE boldly asserting the economy would 'rapidly recover' in the months going forward. The BoE governor, Andrew Bailey, explained the reason for his optimism, saying:

"We do think that that [the vaccine effort] is going to support a sustained recovery throughout the rest of the year."

Versus the Euro the Pound started off February trading at around €1.13 and rose steadily to a high of €1.16, before falling back to €1.15 by the end of the month.

Meanwhile, the GBP/USD exchange rate surged last month, starting off at \$1.37 and eventually climbing to highs of around \$1.41 as improving risk-sentiment limited the appeal of the safe-haven Greenback. By the end of the month, GBP/USD had slipped to \$1.39, thus climbing 2 cents over the month and remaining near a three-year high.

EURO

The Euro struggled throughout February after the Eurozone economy remained in a state of recession with the latest GDP figures for Q4 2020 revealing a 5 percent quarterly contraction. According to the latest numbers, the Eurozone economy contracted by 6.8 percent last year overall, while the German economy – the largest in the Eurozone – grew by only 0.1 percent in the fourth quarter. At the same time, France contracted by 1.3 percent, which was nevertheless not as bad as feared. Nicola Nobile, lead Eurozone economist at Oxford Economics, commented: "The short-term prospects for the European economy remain clouded by a challenging health situation in several countries and an underwhelming start of the vaccination roll-out."

February also saw Germany's factory orders and industrial production figures for the end of last year disappoint. Factory orders fell below forecasts by 1.9 percent while industrial production was flat at zero percent growth. As had been expected, the bloc's manufacturing capacity had suffered due to the tightened lockdown restrictions running up to Christmas.

Hinting that there may be worse to come for the Eurozone, Christoph Weil, an economist at Commerzbank, stated: "In the first quarter of 2021, the decline is likely to be somewhat steeper. However, there will not be a slump like the one in the first half of 2020. Instead, a noticeable recovery is likely to set in again from the spring." The European Union's slow vaccination rollout has also dampened confidence in the Eurozone economy going forward into 2021.

European Commission President Ursula von der Leyen acknowledged there had been failures, saying that the EU "should have given more thought in parallel to the challenges of mass production."

However, towards the end of February, single currency investors became steadily more optimistic about the EU's falling Covid-19 cases. Also, the EU appears to be catching up with the UK in Covid-19 vaccinations, with Ursula von der Leyen saying: "We're catching up. Britain has administered 17 million first doses. There are 27 million in the EU. In Italy, with a population similar to that of Great Britain, twice as many citizens received full vaccination protection with the second dose as in the UK." As a result, the Euro was seen steadily clawing back some of its losses towards the end of February. Added to this, weakness in the US Dollar, the Euro's biggest competitor, also helped strengthen demand for the single currency.

UNITED STATES DOLLAR

February saw the US Dollar fall against many of its rivals as risk sentiment continued to improve on positive news surrounding Covid-19 vaccine rollouts worldwide. Consequently, demand for the safe-haven currency was compromised as investors began to seek out risk and yield amid growing confidence in the global economy. Investors reacted positively to falling coronavirus infection rates fall and the news that more people were being inoculated against the virus. This allowed the Pound to hit an almost three-year high against the US Dollar as it touched \$1.41 for the first time since April 2018. Nevertheless, there was a sharp upwards correction in the value of USD towards the end of the month, when markets reasoned a US interest rate hike could be imminent as a reaction to expected higher inflation. The safe harbour Dollar regained some of the ground it has lost recently, and there was a knock-on effect in bond markets with yields on US Treasury Bills surging.

Earlier in the month, news surrounding President Joe Biden's \$1.9 trillion coronavirus stimulus plan had limited the appeal of the US Dollar. The stimulus package has now cleared its first major hurdle on the way to securing Congressional approval. As a result, demand for USD fell as the outlook for the global economy improved and confidence in the successful passing of the stimulus plan grew. This proved to be short-lived however, as markets began to factor in the inflationary effect of the stimulus programme, figuring it may lead to an interest rate hike sooner rather than later.

In US manufacturing news, January's ISM Manufacturing PMI fell below the forecast of 60 to 58.7. December's resurgence in Covid cases however had little effect on manufacturing, which provided a boost of confidence in the US economy going into 2021. Employment data also improved, with the ADP Employment Change figure soaring above consensus to 174 thousand. Non-Farm Payrolls, however, fell below expectations but nevertheless rose from -227 thousand to 49 thousand, pointing to a slower-than-hoped recovery in the jobs market.

US Treasury Secretary Janet Yellen had earlier assured investors the US economy would come 'roaring back' once Congress had approved Joe Biden's stimulus package, although for the most part markets decided to ignore her comments, as well as some dovish talk from the Fed, and chose instead to price in a tighter monetary policy going forward.

KEY DATES IN MARCH

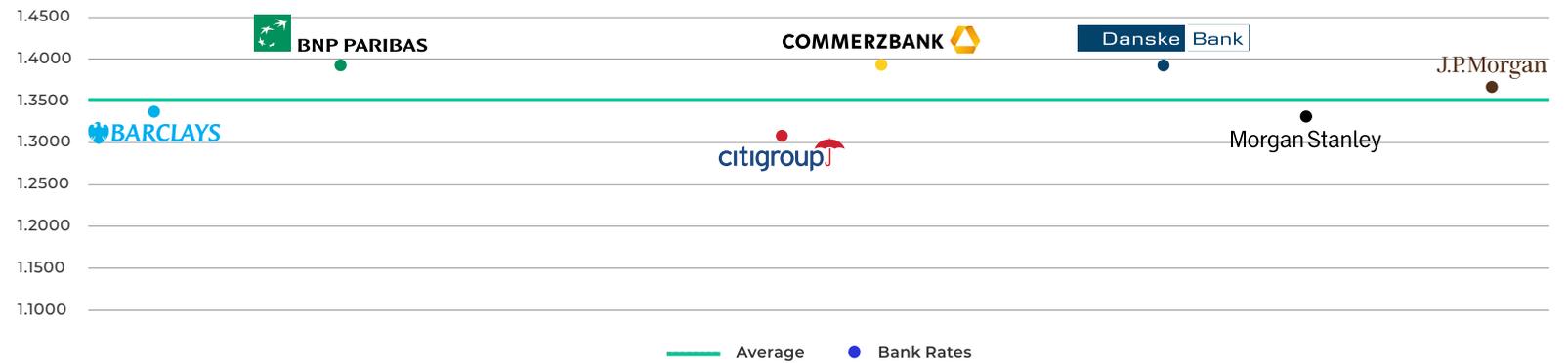
UNITED KINGDOM	
3 March	Markit Services/Composite PMI
4 March	Construction PMI (January)
18 March	BoE Interest Rate Decision
19 March	Gfk Consumer Confidence
24 March	Core Inflation Rate (February)
26 March	Retail Sales Data (February)

EUROZONE	
3 March	Core Inflation Rate (February)
4 March	Retail Sales (January)
11 March	ECB Interest Rate Decision
12 March	ECB Industrial Production
24 March	Markit Composite PMI Flash
25 March	M3 Money Supply (February)

UNITED STATES	
3 March	Markit Services PMI Final
4 March	Initial Jobless Claims (February)
5 March	Non Farm Payrolls (February)
10 March	Core Inflation Rate (February)
16 March	Retail Sales (February)
24 March	Markit Composite PMI Flash

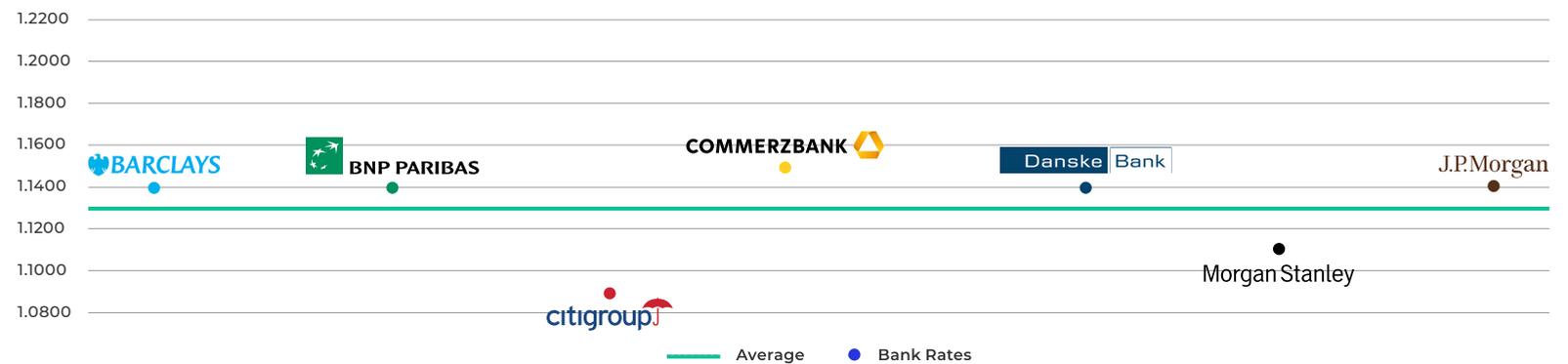
GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.3400
BNP Paribus	1.3900
Bank of America	N/A
Citigroup	1.3100
Commerzbank	1.3800
Danske Bank	1.3800
JP Morgan	1.3700
Morgan Stanley	1.3300



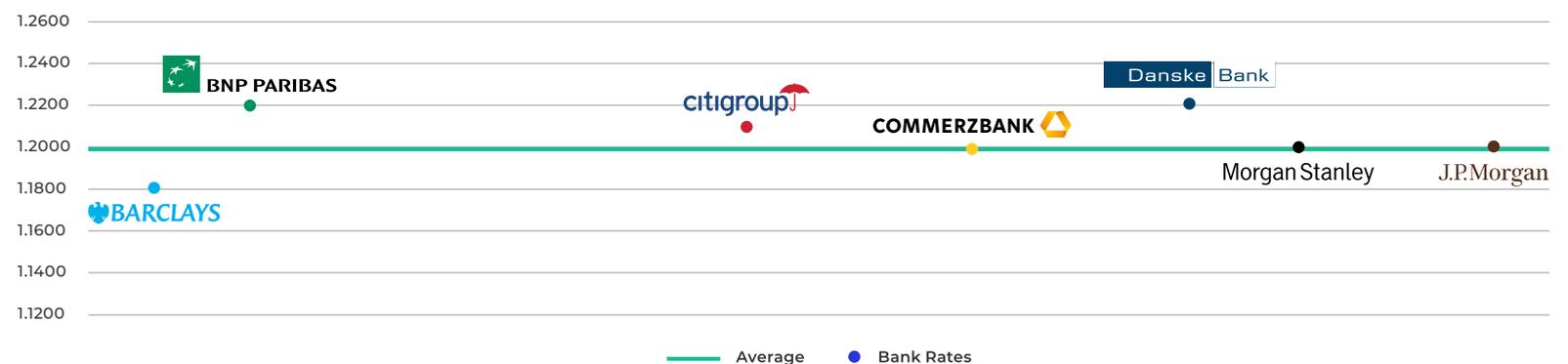
GBP/EUR TOP BANK FORECASTS

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



EUR/USD TOP BANK FORECASTS

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



MARCH RISK EVENTS AND KEY THEMES

UNITED KINGDOM

March budget: All eyes will be on Chancellor Rishi Sunak this week as he prepares to present a budget aimed at repairing the significant damage to public finances caused by the coronavirus pandemic. Sunak will announce the first steps of a landmark budget which is expected to be the most significant peacetime budget in recent history.

Now that the UK's Covid-19 vaccination programme is on course and infection rates continue to fall, will the announcements in the budget further improve confidence in the economy? If so, we can expect the Pound to continue on its upward trajectory.

Easing Covid-19 restrictions: The Pound will continue to be driven by news around the UK's planned easing of the Covid-19 lockdown restrictions. The 8 March will see schools return as well as relaxed rules on socialising in public spaces, while 29 March will see further rules eased in time for the Eastern Holidays.

The second phase will take place in April, with the reopening of non-essential retail outlets.

Q3 GBP/USD bank averaged forecast: 1.36

EUROZONE

Eurozone Covid-19 situation: Euro traders will be monitoring the EU's Covid-19 vaccination programme throughout March. If rates continue to gain pace, catching up with the UK, then we might see the single currency begin to regain some of its losses as the outlook improves for the Eurozone's economy. At the same time, however, any continued strengthening of the US Dollar is likely to offset potential Euro gains.

German economic data: This month will see the release of the latest ZEW Surveys of German and Eurozone Business and Consumer Confidence. If consumer and business morale show signs of improving in the Eurozone's powerhouse economy, this could put a floor under Euro rates.

Today will also see a speech from 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: 1.13

UNITED STATES

US Covid-19 stimulus package: President Joe Biden's massive \$1.9 trillion Covid-19 stimulus plan will continue to dominate market attention in March. Any signs that the stimulus package could pass its next hurdle in Congress would provide a tremendous boost to risk sentiment.

As a result, we will see demand for the safe-haven US Dollar suffer throughout the month as optimism continues to grow in the outlook for the global economy.

US employment statistics: March will see the release of February's Non-Farm Payroll figures, which are expected to improve from 49 thousand to 148 thousand as the US economy continues to gain in strength. Employment is becoming a more important issue in the US, with Fed Chair Jerome Powell recently stating that the central bank will pursue policies that will lead to 'full employment by 2023'.

Q3 GBP/USD bank averaged forecast: 1.36

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