CURRENCY FORECAST
MAY 2020

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APRIL REVIEW & MAY RISK EVENTS & THEMES

POUND STERLING

April was another difficult month for Sterling, with traders becoming alarmed as the UK Prime Minister Boris Johnson was placed into intensive care following news that he had contracted the Covid-19 virus. Risk on-risk off (RORO) continues to be the dominant driver of FX markets, with Sterling inevitably being caught in the crossfire. The Pound's continued vulnerability saw it unable to shake off its recent weakness, despite an overall decline in the global cases of Covid-19 infection rates and deaths and the PM's eventual release from hospital.

GBP/USD fluctuated between $1.22 and $1.26 throughout April, weakening to $1.25 by the start of May as fresh concerns arose over Brexit trade talks. The UK and the EU have been unable to agree on a compromise over so-called level playing field guarantees in regard to governance and fisheries policy. Negotiations have been at an impasse since January, with the EU demanding concessions for a deal to be reached but the UK demanding it must be treated as an independent country during talks. These concerns have been one reason the Pound remains weakened against the US Dollar and the Euro.

At the same time a nationwide lockdown and the public health crisis sparked by the Covid-19 virus has caused severe economic damage across the UK, further denting sentiment in the Pound. Statistics provider IHS Markit revealed the UK manufacturing sector suffered its "worst month in history" in April, with the index crashing to 32.6, down from 47.8 in March. Output, order books and employment figures were all hit hard in April by company closures and weak demand, leading some analysts to worry about the long-term effects on supply chains. In addition, March retail sales figures fell by the largest amount on record, with a similar slump expected to be reported in April. These factors are keeping sentiment in the Pound suppressed for the time being, with traders generally bearish as they wait to see the extent of UK economic damage and the details of any lockdown exit strategy before making any major moves.

EURO

Focus had been on the European Central Bank's (ECB) meeting at the end of April, but with no surprises revealed (interest rates were kept on hold at zero percent) market sentiment remained remarkably positive towards the single currency. This was despite traders expecting the ECB would follow the US lead and include the purchase of junk bonds in its asset purchasing measures to shore up the Eurozone economy.

Over the course of April, GBP/EUR moved between a low of €1.13 and a high of €1.15. The Covid-19 outbreak continued to ravage the Eurozone economy, with figures revealing the bloc contracted by 3.8 percent in the first quarter, with the French and Spanish economies posting the biggest losses of 5.5 percent and 5.2 percent respectively – the fastest decline on record. While France, Germany, Italy and Spain all began to lift some of the restrictions imposed in the face of the Covid-19 crisis, this only offered limited support to the single currency.

Despite these troubling economic figures and a lack of resolve from the ECB, demand for the Euro remained generally robust over the course of April, with EUR/USD trading sideways between $1.08 and $1.10. The global rush to liquidity may have helped this, with the Euro's (somewhat) safe haven status buoying demand.

UNITED STATES DOLLAR

US stock markets surged during April, while the US Dollar Index (DXY) slipped from 100.69 to 98.93 by May 1. The economic damage caused by the virus outbreak has seen investors flocking to USD, having the overall effect of keeping the currency buoyed.

One factor impacting USD is the sudden plunge in oil prices and the knock-on implications for the US economy. Although the US is a net oil importer, the domestic oil sector plays a large role in the economy, and with prices of WTI devaluing to sub-$20 levels there is serious concern that production will be financially unviable for much longer. If this is the case, the oil production sector will likely seek a bailout – an eventuality that has wider debt implications for the US economy and could cause stress for USD.

At the same time, risk sentiment received a blow at the end of April as President Trump seemed to directly implicate the Chinese government in the spread of Covid-19. Mr Trump threatened to impose new tariffs on China over the pandemic, a move that caused an immediate appreciation in USD, with USD/GBP jumping from £0.79 to £0.80 on Friday morning, thus winning back some of its monthly losses.
agreed in Congress would amount to almost $3 trillion in guaranteed loans.

It was the second such interest rate cut in as many weeks, with the Fed stating that rates would be kept low until the danger of the virus had passed. Despite the cuts, the US Dollar continued to remain resilient in the face of the pandemic, fulfilling its role as global reserve currency and a safe haven during the economic disruption. Accordingly, the US Dollar index (DXY) rose from around 96 at the start of March, to finish up at almost 100 by the beginning of April.

KEY DATES

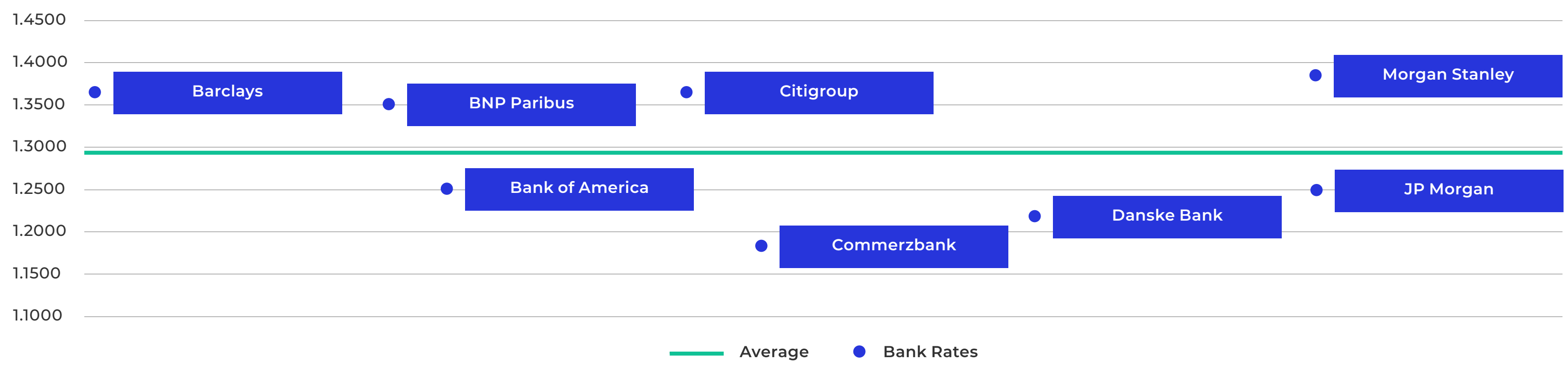
UNITED KINGDOM	
5 May	Markit Services/Composite PMI
7 May	BoE Interest Rate Decision
12 May	GDP Growth Rate (Q1)
19 May	Unemployment Rate (Mar)
20 May	Inflation Data (Apr)
21 May	Retail Sales Data (Apr)

EUROZONE	
6 May	Markit Services/Composite PMI
6 May	Retail Sales (Mar)
13 May	Eurozone Ind. Production (Mar)
15 May	Eurozone GDP (Q1)
15 May	ZEW Economic Sentiment Ind.
19 May	Eurozone Inflation Data (Apr)

UNITED STATES	
5 May	Markit Services/Composite PMI
7 May	Initial Jobless Claims (May)
8 May	Non-Farm Payrolls (Apr)
15 May	Retail Sales (Apr)
15 May	Industrial Production (Apr)
28 May	GDP Growth (Q1)

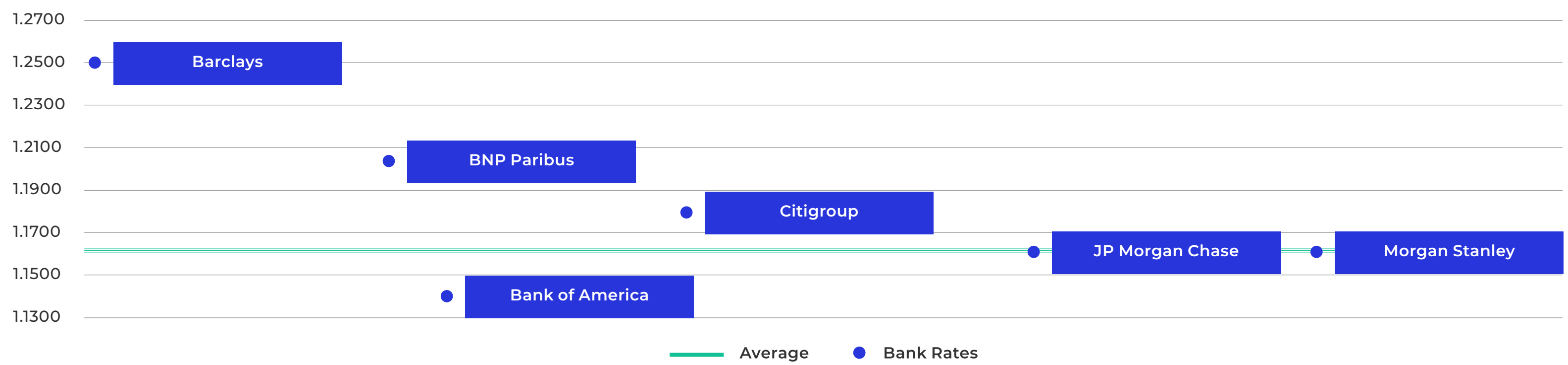
GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.3600
BNP Paribus	1.3500
Bank of America	1.2500
Citigroup	1.3600
Commerzbank	1.1800
Danske Bank	1.2200
JP Morgan	1.2500
Morgan Stanley	1.3800



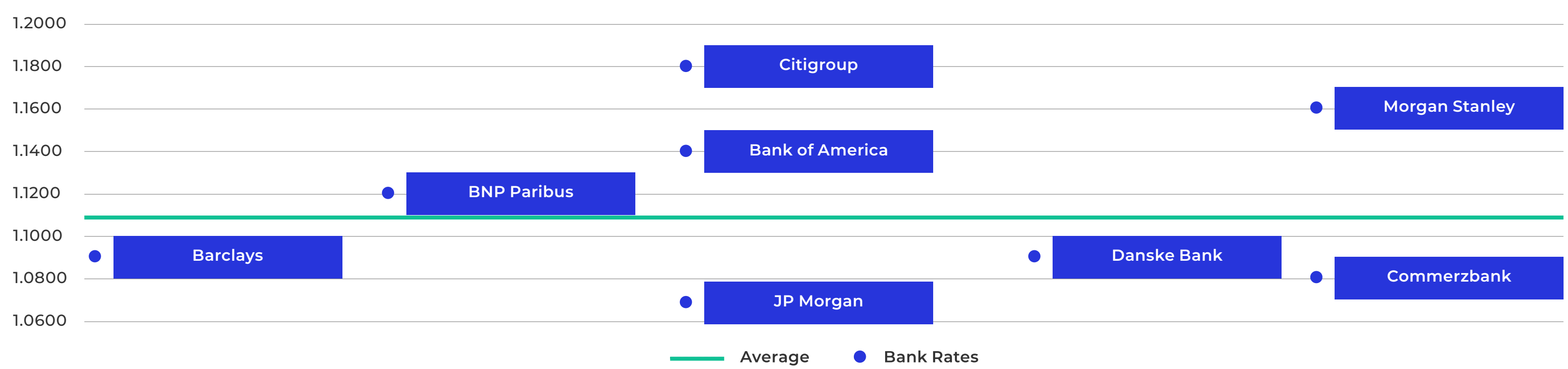
GBP/EUR TOP BANK FORECASTS

BANKS	Q2
Barclays	1.2500
BNP Paribus	1.2000
Bank of America	1.1400
Citigroup	1.1800
Commerzbank	1.0800
Danske Bank	1.1200
JP Morgan Chase	1.1600
Morgan Stanley	1.1600



EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.0900
BNP Paribus	1.1200
Bank of America	1.1000
Citigroup	1.1300
Commerzbank	1.1000
Danske Bank	1.0900
JP Morgan	1.0700
Morgan Stanley	1.1800



KEY THEMES

UNITED KINGDOM

UK economic damage and details of lockdown lift: UK PM Boris Johnson is expected to announce details of how the lockdown will come to an end over the coming week. With the number of new Covid-19 infections and deaths showing a clear downward trend, focus is now turning to reopening the parts of the economy that have been closed and getting the country back to work. Chancellor Rishi Sunak says he is "deeply troubled" by the Office for Budget Responsibility's forecast of a steep fall in GDP, with accountancy firm PwC estimating that UK growth will fall by between -5 and -10 percent this year, primarily as a result of lower consumer spending.

What is the BoE's next policy move? Currently the Bank of England (BoE) is engaged in a £645bn bond purchase programme, and with interest rates at a record low of 0.1 percent the Bank's options for further stimulus measures would appear limited. Instead, the BoE is waiting for direction from Boris Johnson on how the lockdown measures will be lifted with a view to kick starting the economy. Economists do not expect the BoE to announce any major policy changes when policymakers convene on May 7, with Governor Andrew Bailey saying any economic projections released on that date will likely be "guesswork". Meanwhile, analysts are speculating that the Bank will need to increase its QE bond buying programme when it meets in June.

EUROZONE

Eurozone growth outlook. The economic forecast for the Eurozone remains bleak, with ECB President Christine Lagarde stating that the economy could contract by a huge 15 percent in the second quarter, according to the Bank's own forecasts, due to the lockdown resections in place across the bloc. This would be considerably worse than the Q1 figures and indicates a sudden drop-off in economic activity almost across the board.

What is the ECB's next policy move? Following the ECB's most recent meeting in which it left its main rates untouched, the Bank is now talking about introducing a series of longer-term stimulus measures to counteract the economic damage done by the Covid-19 outbreak. These are known collectively as pandemic emergency longer-term refinancing operations (PELTROs) and are basically liquidity measures in the form of refinancing options for banks. Many market analysts say the liquidity involved is insufficient, and that the ECB needs to refinance €2tn before 2021. Current measures only allow for €1tn. If policymakers show signs of starting to listen to these concerns, we can expect more robust action from the ECB at its next meeting.

What is the Political risk in the region? The rate of Covid-19 infection across Europe seems to have hit a peak in April and is now on the decline. However, ongoing concerns about the perceived unequal treatment of Mediterranean countries by the EU could continue to cause political problems. The ECB's liquidity response is keeping European banks solvent for now but worries remain about the longer-term debt implications and who is going to pay for it.

UNITED STATES

What is the Fed's next policy move likely to be? With interest rates near zero, the Fed is turning its attention to ensuring a robust economic rebound when the coronavirus pandemic measures are eased. Analysts expect the Federal Open Market Committee (FOMC) to keep interest rates unchanged in May, and to keep them low for the rest of the year. The Fed has further pledged $2.3tn in loans to cushion the blow to businesses of the economic turmoil. Further clarification about forward guidance is expected at the next FOMC meeting.

Shock economic growth contraction. USD has shown a weakening bias over the last month although this could be reversed if risk sentiment is further damaged by economic contraction. With 26.5 million extra Americans signing on to claim unemployment benefit, and the US economy contracting at an annualised rate of 4.8 percent, the risk remains that any economic bounce back once restrictions are lifted will not be enough to repair the damage.

What are the political risks in the region? At present, with virtually all news focusing on the viral pandemic outbreak and its effects, attention is naturally on the economic damage incurred. However, a fresh concern is the extent to which President Trump will attempt to pin the blame for the outbreak on China and the ramifications this will have on global trade and risk sentiment. In the short-term USD is likely to benefit from this at the expense of risk-off currencies such as AUD. Another major concern within the US is the way the lockdown is being wound down, with some states – such as Texas – easing restrictions before others. This unequal transition threatens to cause trouble as citizens in other states demand equal treatment.