

CURRENCY FORECAST

MAY 2021



APRIL REVIEW

POUND STERLING

The Pound has exhibited divergent tendencies over the course of April, gaining slightly against the US Dollar but falling back against the Euro. The reason for Sterling's strength against the Dollar can be put down to dwindling expectations of negative rates from the Bank of England, as well as positive sentiment from the continuing rollout of Covid-19 vaccines in the UK. Against the Euro, it was a case of surging demand for the shared currency against the US Dollar, boosting the EUR/USD pairing over 3 percent, to the detriment of GBP/EUR.

April has seen the Pound fall from highs of €1.18 to lows of around €1.14 over the course of the month, although it fared better against the US Dollar, edging up to around \$1.39. The UK's vaccination record hit a new milestone, as a quarter of adults became fully vaccinated. As a result, this continued to buoy optimism in the UK economy, which is now predicted to rebound following the further easing of lockdown measures in May and June. 'Signs of spring' emerged in the UK manufacturing PMI for March as it beat forecasts and rose to a decade-high, while the services sector also improved due to pent-up demand. As a result, Sterling performed well after the government eased lockdown restrictions for non-essential shops, restaurants and bars.

We also saw the Bank of England's (BoE) deputy governor Ben Broadbent bullishly comment that the UK is now likely to see a 'very rapid' recovery. The UK's preliminary services PMI confirmed this outlook for the economy by beating forecasts and rising to 60.1. Chris Williamson, the Chief Business Economist at IHS Markit, said that 'companies are reporting a surge in demand for both goods and services as the economy opens up from lockdowns and the encouraging vaccine roll-out'. Unemployment continued to creep higher, however, but there is a growing confidence that businesses will begin to hire again soon.

Despite increased confidence in the UK economy, however, GBP investors became cautious following emerging tensions between the UK and EU over the AstraZeneca legal battle. The Anglo-Swedish drug maker missed delivery targets to the EU earlier this year. Added to this, growing numbers of Covid-19 cases in India left some GBP traders cautious. As a result, the GBP/EUR exchange rate quickly stalled at the beginning of April.

Versus the Euro the Pound started off April trading at around €1.17 but had fallen to a rate of €1.15 by the end of the month.

Conversely, against the US Dollar the Pound began the month at a rate of \$1.38 and rose to a rate of \$1.40 by 29 April.

EURO

The Euro picked up pace last month following encouraging signs about the Eurozone's manufacturing sector. The Eurozone's manufacturing PMI for March beat forecasts and rose to 62.5. Chris Williamson, from IHS Markit, was optimistic about the outlook for the bloc's manufacturing sector, saying, "Production and order books [are] growing at rates unprecedented in nearly 24 years of PMI survey history."

Europe's Covid-19 situation, however, held back the Euro to some extent.

France and Germany faced rising numbers of Covid-19 and entered lockdowns. Eurozone unemployment showed some signs of improvement, falling below expectations to 8.3 percent, but weak retail sales in February saw EUR investors become more pessimistic about the outlook for the bloc's economy.

The flash Eurozone PMI composite figure for April rose from 53.2 to 54.7, providing a better picture for the bloc's economic recovery. Mr Williamson commented:

"In a month during which virus containment measures were tightened in the face of further waves of infections, the eurozone economy showed encouraging strength. Although the service sector continued to be hard hit by lockdown measures, it has returned to growth as companies adjust to life with the virus and prepare for better times ahead."

Christine Lagarde, the European Central Bank's (ECB) President, was more than dovish, however, saying the European Union economy was now "on crutches", while the ECB confirmed expectations and held interest rates at 0 percent once again. Fears that Germany could face lockdown restrictions until June also limited the Euro exchange rate last month.

UNITED STATES DOLLAR

April saw the US Dollar struggle as global risk sentiment improved, limiting the appeal of the safe-haven currency. In terms of US economic data, the outlook for the world's largest economy continued to improve. 1 April saw the publication of the US ISM manufacturing PMI for March, which beat forecasts and rose to 64.7. Gus Faucher, Chief Economist at PNC Financial Services, was upbeat about the outlook for the American economy, saying:

"Growth will remain very strong over the next few months as consumers continue to spend their stimulus funds, people feel more comfortable going out, and businesses reopen. U.S. manufacturers will benefit from strong domestic and foreign economic growth."

US Nonfarm Payrolls also beat forecasts in April and soared to 916,000.

As a result, the US Dollar suffered as investors sought riskier assets on renewed optimism over the economy's rebound from the coronavirus pandemic. Beth Ann Bovino, an economist at S&P Global said that there was now a "seismic shift going on in the US economy". Bovino added:

"Fear is subsiding, and American households are sitting on a lot of cash. That's going to support spending, especially in the services sector."

The US ISM services PMI for March also beat consensus and rose to 63.7. However, US initial jobless claims continued to raise concern for America's unemployment issue. Late in April, the US durable goods orders figure for March helped to further buoy confidence in the US economy, as the figure beat forecasts and rose by 0.5 percent.

US Dollar was also guided by fluctuating US Treasury yields last month after Federal Reserve Chair Jerome Powell said that the Bank was "a long way off" withdrawing monetary support for the economy. As widely expected, the Fed held its interest rate at near zero, and Powell insisted that US economic recovery had been "uneven and far from complete".

KEY DATES IN MAY

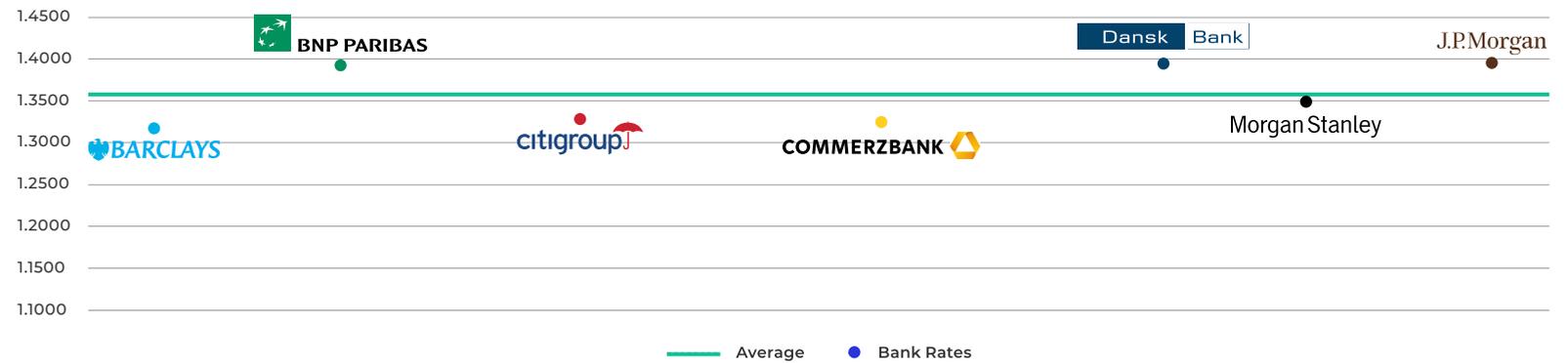
UNITED KINGDOM	
6 May	Markit Services/Composite PMI
6 May	BoE Interest Rate Decision
12 May	GDP Growth Rate
18 May	Unemployment Rate
19 May	Core Inflation Rate
21 May	GfK Consumer Confidence

EUROZONE	
6 May	Markit Services/Composite PMI
6 May	Retail Sales Data
May	Industrial Production
19 May	Core Inflation Rate
21 May	Composite PMI Flash
31 May	M3 Money Supply

UNITED STATES	
1 May	Markit Manufacturing PMI Final
7 May	Unemployment Rate
7 May	Non Farm Payrolls
12 May	Core Inflation Rate
14 May	Retail Sales Data
14 May	Industrial Production

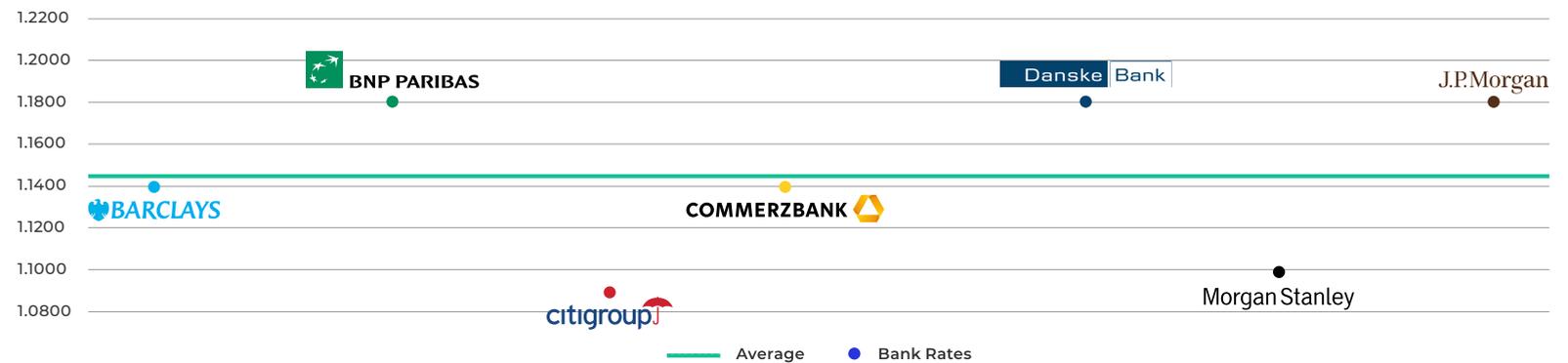
GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.3200
BNP Paribus	1.3900
Bank of America	N/A
Citigroup	1.3300
Commerzbank	1.3400
Danske Bank	1.3900
JP Morgan	1.3900
Morgan Stanley	1.3500



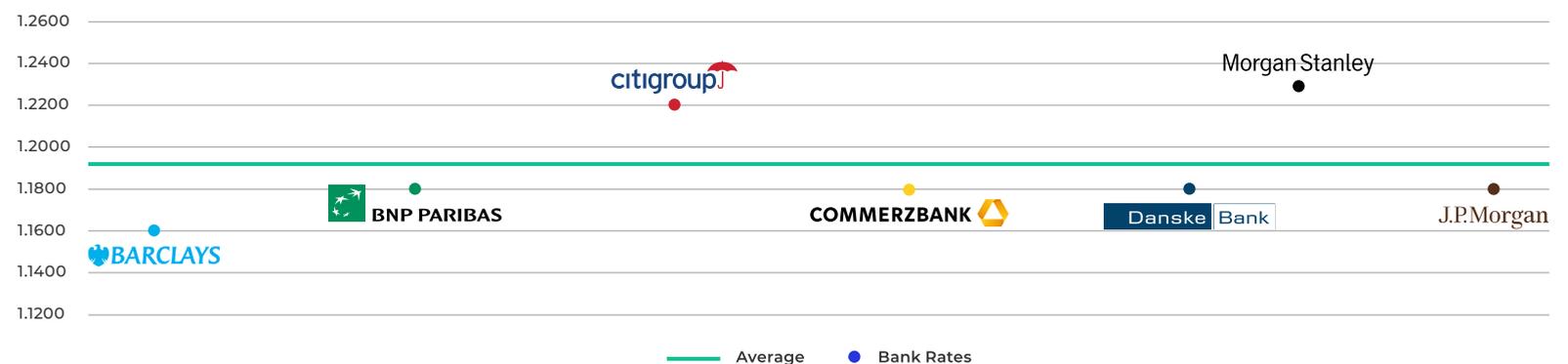
GBP/EUR TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1400
BNP Paribus	1.1800
Bank of America	N/A
Citigroup	1.0900
Commerzbank	1.1400
Danske Bank	1.1800
JP Morgan Chase	1.1800
Morgan Stanley	1.1000



EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1600
BNP Paribus	1.1800
Bank of America	N/A
Citigroup	1.2200
Commerzbank	1.1800
Danske Bank	1.1800
JP Morgan	1.1800
Morgan Stanley	1.2300



MAY RISK EVENTS AND KEY THEMES

UNITED KINGDOM

Easing lockdown measures: We could see the Pound head higher against its peers in May as the UK further eases lockdown restrictions.

Hospitality will return to a degree of greater normality by being able to serve indoors until 22:30. Outdoor adult contact sport and indoor group exercise will also restart, meaning that gyms can reopen to a fuller degree.

This fuller opening up of businesses is likely to see improved sentiment towards Sterling, assuming it goes ahead as planned.

UK GDP release: May will also see the release of the latest estimated GDP data for the first quarter.

Any significant signs of recovery in the UK economy during the opening months of 2021 would further bolster the already positive outlook for the British economic recovery over the coming months.

Q3 GBP/USD bank averaged forecast: 1.40

EUROZONE

Eurozone Covid-19 situation: EUR investors will continue to monitor the EU's Covid-19 situation in May. Any further signs of delays in vaccinations or rising numbers of cases of the virus would further limit confidence in the Eurozone's economic recovery.

As a result, we could see the single currency begin to shed some of its recent gains against its peers.

German economic sentiment: Next month will see the release of the latest German ZEW survey of economic sentiment for May.

If this shows a robust return of consumer morale for the Eurozone's largest economy, then the Euro exchange rate could begin to head higher against its peers. Germany's GDP data for the first quarter will also be a key driver for the EUR exchange rate next month.

Q3 GBP/EUR bank averaged forecast: 1.15

UNITED STATES

Global risk sentiment: If May sees Covid-19 cases continue to rise in places as diverse as India and Japan, then demand for the safe-haven US Dollar will likely increase.

As a result, next month will see the US Dollar dominated by global market mood as investors monitor the global coronavirus situation. If there are any signs of improvement, however, then USD demand could ease.

US non-farm payrolls: US jobs data will remain in focus next month. With Joe Biden now over 100 days into his new job as president, Americans will be looking to see whether his policies are having any noticeable effect on the employment and jobs situation.

Q3 GBP/USD bank averaged forecast: 1.40

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+44 (0)20 7740 0000