CURRENCY FORECAST
OCTOBER 2020

currency solutions

SEPTEMBER REVIEW

POUND STERLING

In September the Pound generally weakened during the first three weeks before rallying over the final few days on optimism about a post-Brexit trade deal being passed. Even though officials in both the UK and the EU gave no concrete indications of such a prospect, unofficial reports surfaced pointing to a renewed focus on attaining a deal within the time left available. The boost for Sterling was timely as the British currency had been under pressure during the early part of September, partly as a result of the Bank of England hinting that it may be exploring negative interest rates. However, the Deputy Governor, Sir Dave Ramsden, quickly scotched these rumours, saying "At present, negative policy rates would be less effective as a tool to stimulate the economy."

Surveys of business activity showed that the UK economy was losing momentum even before the latest round of Covid-19 related restrictions came into effect. Figures showed the IHS Markit flash composite PMI fell to 55.7 in September from 59.1 in August. This tail-off in growth is concerning to economists as it had been thought that pent-up demand would power the index higher. At the same time, redundancies began to rise at their fastest rate since 2009, with as many as 695,000 people losing their jobs since March. This worrying development caused Chancellor Rishi Sunak to announce an extension to help for businesses so that they would retain staff, despite the furlough scheme running out in October.

It wasn't all bad news for the UK economy, however, with retail sales soaring above pre-pandemic levels, house prices bouncing higher, and mortgage approvals hitting their highest level since 2007. At the same time, flash PMI were upbeat, with all indexes showing growth. Nevertheless, the bad news outweighed the good, although traders once again chose instead to focus on Brexit developments, causing the Pound to drift lower over the course of September.

Against the US Dollar the Pound started off the month at $1.34 and ended markedly lower at $1.29 – having sunk to lows of $1.27 only a week earlier – its worst monthly performance since 2016.

Versus the Euro, GBP/EUR began September at €1.12 and slipped to €1.10 by the end of the month.

EURO

The Euro fell back from a two-year high against the US Dollar in September, losing over 2.5 percent against its rival, although it did appreciate against the Pound. The main driver for this was a continuing fall in risk appetite due to rising rates of Covid-19 infections in both the US and in Europe.

Eurozone economic data has been weak over the course of September, and markets are now expecting that the European Central Bank (ECB) will take action on interest rates as early as April 2021. With ecostats deteriorating, rate cut expectations have begun to edge higher, with the expectation that the ECB will be forced to move deeper into negative territory sooner than expected. German retail sales began to contract once more, while Eurozone Markit composite PMI figures barely remained in positive territory, despite economic confidence showing some signs of improvement.

However, the big focus for the Eurozone and the ECB remains the rate of inflation across the bloc. Both the month-on-month and annualised inflation figures came in negatively at the start of September, indicating that the Eurozone continues to lose momentum despite the hefty stimulus measures put in place. As such, any further signs that deflation could be taking hold will likely act to weaken EUR/GBP.

The Euro outperformed the Pound in September, rising from £0.89 to end the month at £0.91.

UNITED STATES DOLLAR

September saw the US Dollar continue to gain in strength as a general risk-off mood took hold of currency markets once again.

Fears of a second wave of Covid-19 infections came to the fore, with worries about the damage to economies and global trade that would result from limitations being imposed on businesses and travel. As a result, the DXY US Dollar index rose from 92 to 94 over the course of the month.

Economically, the picture remains mixed in the US. There was a 15-point jump in consumer confidence in September – the biggest jump in 17 years – taking the index above 100 for the first time in several months. This comes on the heels of a large drop in the number of unemployed in August, and is despite deadlock in Congress over the continuation of an economic stimulus package worth $2.2 trillion.

Nevertheless, a surge in domestic cases of Covid-19 infections across the US, as well as news that over a million people had now died from the virus worldwide, served to keep USD buoyant throughout September, allowing it to rise against the Pound from £0.75 to £0.78.

As the November election draws nearer the focus will continue to be on whether a rise in risk off sentiment will benefit the US Dollar, or whether safe havens such as JPY and CHF will gain instead given that events are focused on the US itself.

KEY DATES IN OCTOBER

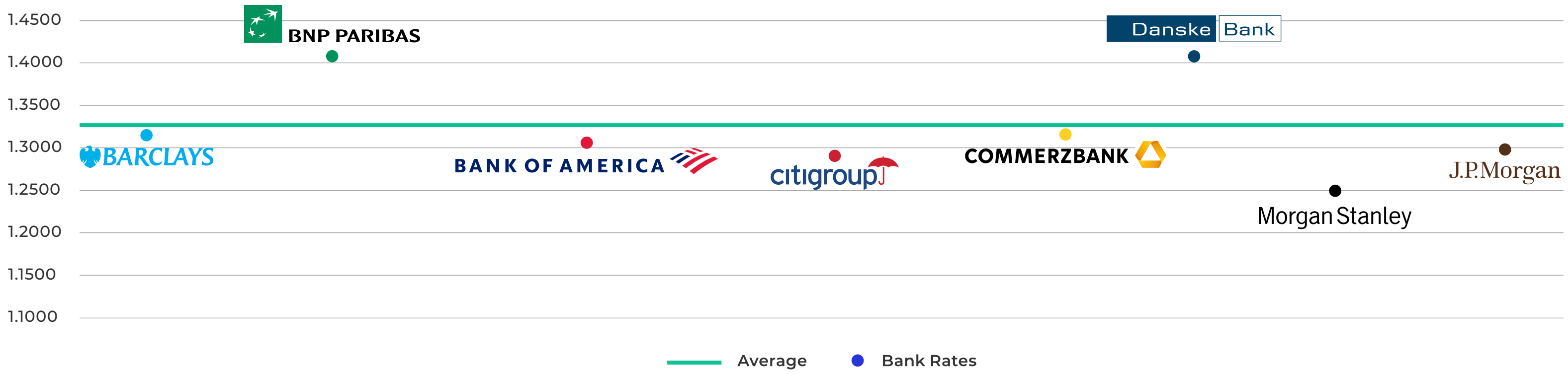
UNITED KINGDOM	
5 October	Markit Services/Composite PMI
9 October	GDP Growth Rate (August)
9 October	Industrial Production (August)
15 October	Brexit Talks at EU Summit
21 October	Core Inflation Rate (September)
22 October	Retail Sales Data (September)

EUROZONE	
2 October	Core Inflation Rate (September)
5 October	Markit Services/Composite PMI
5 October	Retail Sales Data (September)
14 October	Industrial Production Data
29 October	ECB Interest Rate Decision
30 October	GDP Growth Rate Flash (Q3)

UNITED STATES	
2 October	Non-Farm Payrolls (September)
5 October	Markit Services/Composite PMI
6 October	JOLTS Job Openings (August)
13 October	Core Inflation Rate (September)
16 October	Retail Sales Data (September)
29 October	GDP Growth QoQ Advance

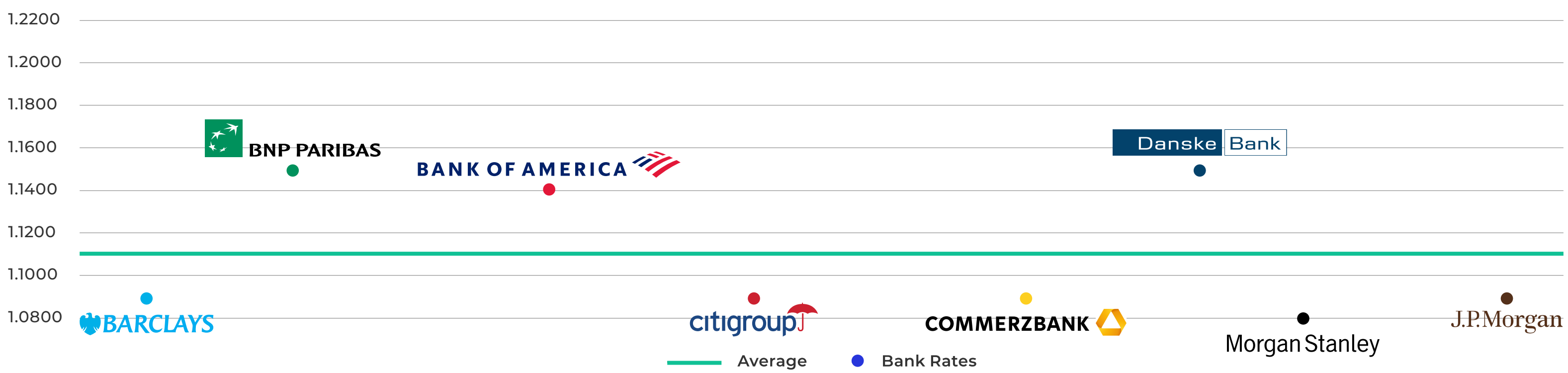
GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.3200
BNP Paribus	1.4100
Bank of America	1.3100
Citigroup	1.2900
Commerzbank	1.3200
Danske Bank	1.4100
JP Morgan	1.3000
Morgan Stanley	1.2500



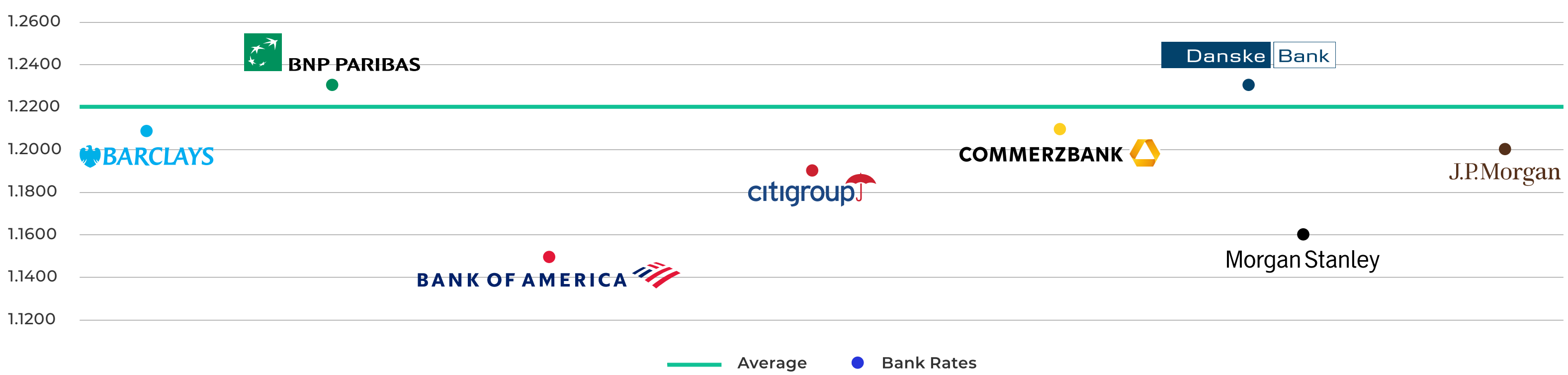
GBP/EUR TOP BANK FORECASTS

BANKS	Q2
Barclays	1.0900
BNP Paribus	1.1500
Bank of America	1.1400
Citigroup	1.0900
Commerzbank	1.0900
Danske Bank	1.1500
JP Morgan Chase	1.0900
Morgan Stanley	1.0800



EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.2100
BNP Paribus	1.2300
Bank of America	1.1500
Citigroup	1.1900
Commerzbank	1.2100
Danske Bank	1.2300
JP Morgan	1.2000
Morgan Stanley	1.1600



OCTOBER RISK EVENTS AND KEY THEMES

UNITED KINGDOM

Government economic support in focus: With UK economic data remaining shaky, investors have become increasingly nervous that the ending of the government's furlough scheme would translate into further damage to the economy, and focus has been on what measures – if any – would replace it. The government confirmed that a new support scheme would see 'viable' jobs subsidised, while there would be an extension of VAT reductions for the hard-hit hospitality and leisure sectors. Despite these assurances, Sterling investors remain nervous about the prospect of a second national lockdown, and the disastrous effect this would likely have on an already deteriorating economy.

Brexit talks: October is likely to be 'crunch time' for Brexit talks. Senior UK figures such as Michael Gove say they remain confident the UK can secure a post-Brexit trade deal with the EU, while the EU's Michel Barnier has said he is 'confident' such a deal can be clinched. Nevertheless, despite these optimistic noises, markets remain unconvinced that a deal can be struck, with time fast running out. The key date to look out for is October 15, when an EU summit takes place, and we can expect to see some volatility for the Pound around then.

Q3 GBP/USD bank averaged forecast: 1.33

EUROZONE

Eurozone deflation: Following a run of poor inflation data, another weak Eurozone core inflation figure could keep rate cut expectations alive, although it's more likely the ECB will choose an extension to its Pandemic Emergency Purchase Programme or Public Sector Purchase Programme. The Euro may come under selling pressure if inflation is weaker, which might allow GBP/EUR to rise. European Central Bank Chief Economist Philip Lane recently made it clear that the central bank is making an assumption that inflation will rise once the Covid-19 situation eases, saying "The baseline scenario in our staff projections indeed factors in that a medical solution [a vaccine for Covid-19] is found over the course of next year … this would support a recovery in the service sector and put upward pressure on service-sector inflation."

Geopolitical risk: Markets are bearish about the Euro for the time being as geopolitical risk remains elevated and fears about the economic impact of a second Covid-19 wave are paramount. Any policy action that involves closing down businesses once again would undoubtedly nip the Eurozone economic recovery in the bud and plunge the bloc into a fresh crisis.

At the same time, concerns about the outcome of the US election are keeping safe havens attractive.

Q3 GBP/EUR bank averaged forecast: 1.11

UNITED STATES

Could USD break key support level? The US economy is recovering from the Covid-19 linked recession faster than expected, according to Fed policymaker John Williams. The New York Fed President said that he expects the economy to "fully recover" within three years, adding that he thought the economy was "on a pretty good trajectory." In terms of the recent announcement about targeting inflation at a rate above two percent, the policymaker stated that such a move was necessary to make up for periods of lower inflation. Apart from than these remarks there have been no further indications of monetary policy changes, other than the stimulus measures currently under discussion in Congress.

Political risk in the USA: will the Supreme Court be involved? With the first televised US presidential debate having passed, scrutiny will continue to be given to the outcome of the November election. Conventional wisdom says that a Trump victory will boost USD, while a victory for the less business-friendly Biden would have the opposite effect. However, there is nothing normal about this election and if – as could happen – it appears the election could be decided in the Supreme Court then we can expect to see USD volatility, with the American currency possibly losing out to other safe havens. As October progresses and more polling is done, we can expect to get a clearer picture of the likely outcome.

Q3 GBP/USD bank averaged forecast: 1.33