CURRENCY FORECAST
SEPTEMBER 2021

currency solutions

AUGUST REVIEW

POUND STERLING

The Pound struggled over the course of August, undermined by risk aversion caused by fears of the spreading Delta variant of Covid-19.

In addition to this, a heightened sense of geopolitical risk primarily as a result of events occurring in Afghanistan further undermined Sterling compared to safe havens such as the US Dollar. This same pressure also caused other risk-sensitive currencies to fall and saw the Pound to hold up against the Australian Dollar.

The UK central bank, the Bank of England (BoE) struck a slightly more hawkish tone, briefly sending the Pound to an 18-month high against the Euro, although it fell back again later in the month.

Poor economic data helped turn this situation around as it was revealed retail sales slipped and inflation similarly followed suit, falling back within the BoE's 2 percent target.

UK growth worries surfaced again when it was revealed activity in services had fallen to a six-month low as a range of factors, including a lack of workers, impacted the sector.

The UK Services PMI slipped to 55, down sharply from 59.6 in July and 62.9 in June. Supply problems were reported to be causing backlogs and missed orders, further dragging on growth. At the same time, a slowdown in factory activity was reported for much the same reasons.

By the beginning of September, the pressure continued to mount on the Pound, as supply chain problems hit the UK economy due to a shortage of lorry drivers, while the fallout from Brexit continued to reverberate.

Economists now worry that supply shortages, rising commodity prices, higher energy prices and spiralling wage bills will cause a spike in retail price inflation, leading to a downturn in consumer spending.

EURO

The Euro faced a difficult month in August, struggling against its main rival, the US Dollar.

Due to talk of tapering asset purchases by the US Federal Reserve, markets anticipated a divergence in monetary policy between the US and the Eurozone, causing outflows away from the Euro to the US Dollar. Another factor to undermine the single currency was the general risk-off sentiment affecting markets as a reaction to spiralling geopolitical angst.

Surging cases of the Covid-19 Delta variant on the European continent also had markets worried, making it difficult for the Euro to make any headway on FX markets.

Just as it is elsewhere in the global economy, inflation has become a concern for European Central Bank (ECB) policymakers. The Eurozone saw inflation clock a 3 percent rise in August, following on from a 2.7 percent increase in July – far above the ECB's 2 percent target. Increases were fuelled by soaring food and energy prices, as well as the cost of raw commodities used by industry. As a result, the ECB is coming under pressure to revise its inflation target, although the bank continues to insist that the price spike is a transitory phenomenon, and that inflation will fall back to around 1 percent in 2022.

The GBP/EUR exchange rate remained steady for the first half of the month, but fell back in the second half, moving from €1.18 to 1.17. Dampened economic sentiment in the Eurozone was one factor holding the single currency back against the Pound, with businesses and consumers concerned that any increase in the rate of Delta infections would cause lockdown restrictions to re-emerge.

The GBP/EUR exchange rate began August at a rate of €1.17 and strengthened to €1.18 in the first half of the month before falling back again to €1.16 by the close.

UNITED STATES DOLLAR

The US Dollar rode higher in August as global risk increased, spurring a move to safe havens. At the same time, the Jackson Hole Symposium of central banks concluded, with many USD investors disappointed by the lack of clarity on forward guidance coming from the convocation.

Nevertheless, bullish talk of tapering asset purchases earlier in the month proved more than enough to spur the Greenback on.

It could have gone higher had Fed chair Jerome Powell not sounded so dovish at Jackson Hole, saying that the US economic recovery was an ongoing project, dampening any hopes of a rise in interest rates. I

nstead, focus would be on gaining full employment, he insisted, saying the Federal Reserve was in no hurry to wind down it bond buying programme. Despite this, we this saw the US Dollar hit multi-month highs, with the DXY Dollar Index finishing off the month above 92.

In US economic news, there was some disappointing jobs statistics published at the start of September, when it was revealed only 235,000 positions had been created in August – a figure that was far below expectations.

This was even more surprising given July's bumper figure, which was over 900,000, wrong-footing economists who had modelled for sustained jobs growth.

Blame for the lack of new positions was pinned firmly on the Delta variant, with concern mounting that the disappointing miss is a harbinger of a slowdown in economic activity.

At the same time, consumer inflation clocked above 5 percent for the second month in a row, causing concern that spending will now be reined in and GDP growth will be hit.

The GBP/USD exchange rate began July at a rate of $1.39 before weakening to $1.36 mid-month, finishing at a rate of $1.38.

KEY DATES IN SEPTEMBER

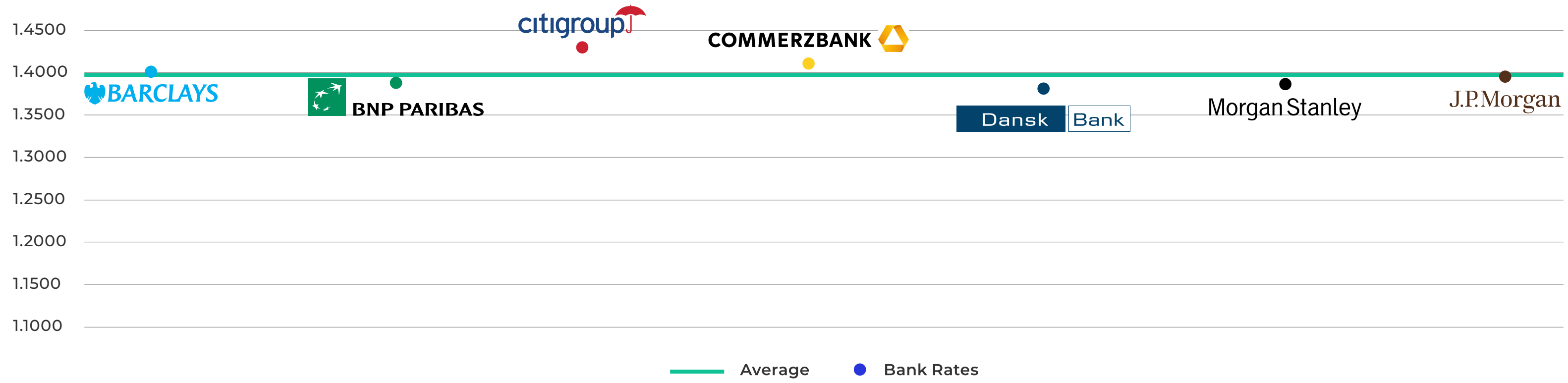
UNITED KINGDOM	
6 September	New Car Sales
10 September	Industrial Production
14 September	Unemployment Figures
15 September	Inflation Data
17 September	Retail Sales Data
23 September	BoE Rate Decision

EUROZONE	
7 September	ZEW Sentiment Index
7 September	GDP Growth Rate QoQ
7 September	Employment Change
17 September	Construction Output
17 September	Core Inflation Rate
26 September	Germany Federal Election

UNITED STATES	
8 September	JOLT Job Openings
14 September	Core Inflation Rate
15 September	Manufacturing Production
16 September	Retail Sales Data
22 September	Fed Interest Rate Decision
23 September	Markit Composite PMI Flash

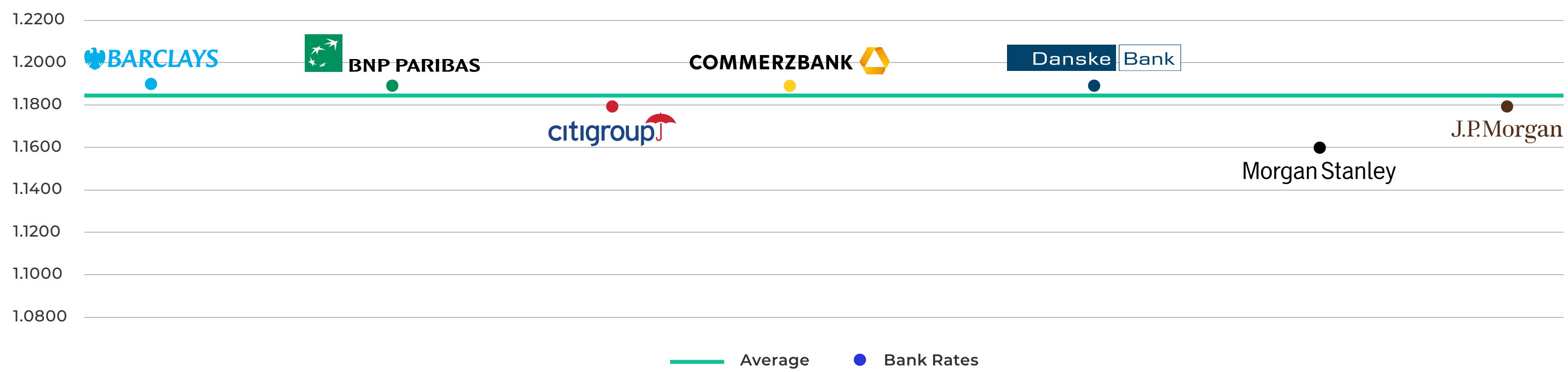
GBP/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.4000
BNP Paribus	1.3900
Bank of America	N/A
Citigroup	1.4300
Commerzbank	1.4100
Danske Bank	13800
JP Morgan	1.4000
Morgan Stanley	1.3800



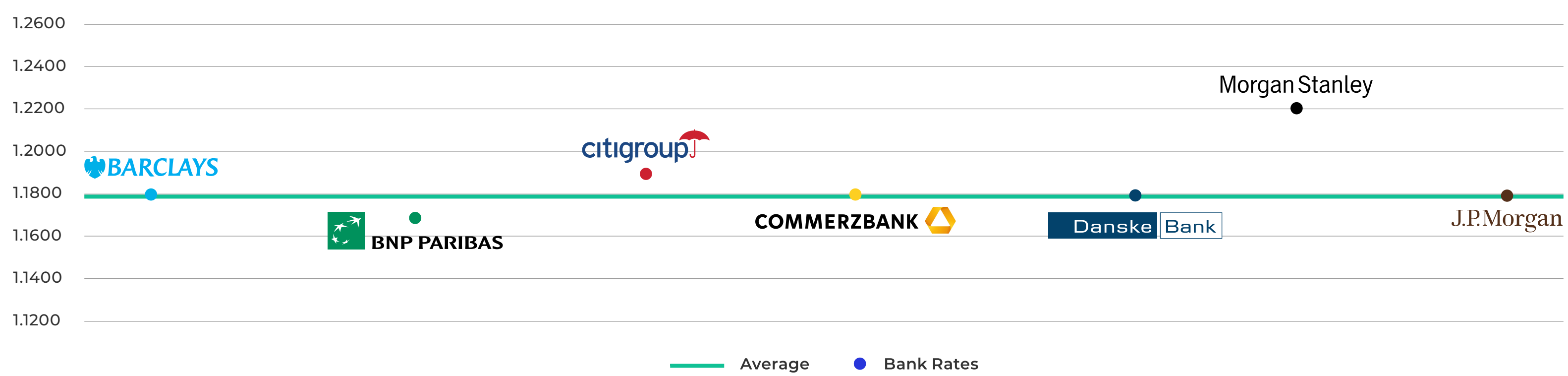
GBP/EUR TOP BANK FORECASTS

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



EUR/USD TOP BANK FORECASTS

BANKS	Q2
Barclays	1.1800
BNP Paribus	1.1700
Bank of America	N/A
Citigroup	1.1900
Commerzbank	1.1800
Danske Bank	1.1800
JP Morgan	1.1800
Morgan Stanley	1.2200



SEPTEMBER RISK EVENTS AND KEY THEMES

UNITED KINGDOM

Delta variant spread: Although the UK is one of the most highly vaccinated countries in the world, the rapid spread of the Delta variant is of a concern to Pound investors.

Economic growth is already being impacted by knock-on effects caused by the havoc virus infections is wreaking in the services sector. For this reason, focus will be on both economic data in the coming month, as well as the Delta caseload as the UK moves into Autumn, the season when respiratory viruses tend to tick up.

Supply chain disruptions: A lack of lorry drivers, service sector staff and agricultural workers threatens the UK with a 'perfect storm'. As warnings of a 'turkeyless Christmas' start to worry consumers, the reality of food shortages is a growing concern. But with large numbers of EU-based drivers, food pickers and processing staff choosing to remain in their home countries rather than face red tape, Covid restrictions and difficult conditions in the UK market, attention will be focused on the government and its policy measures aimed at alleviating the situation.

Q3 GBP/USD bank averaged forecast: 1.38

EUROZONE

COVID-19 situation: The Euro remains sensitive to the impact of the spread of Covid and its variants across the Eurozone. This has, in part, driven the single currency's recent weakness, and there are real fears that if further social restrictions are put in place there could be a severe setback for the economic recovery.

With growing numbers of so-called breakthrough infections, in which vaccinated people become sick, questions are being asked about what course of action the national governments of the Eurozone will take next.

General election: The Federal election is expected to be held on 26 September, to decide who will get to sit in the Bundestag.

Long-term incumbent chancellor, Angela Merkel, will not stand for re-election, meaning Germany will move into a new era.

Political analysts expect there to be no overall winner, and there is a possibility three parties will have to form a coalition to rule. The political turbulence caused with any negotiations has the possibility to negatively impact the Euro.

Q3 GBP/EUR bank averaged forecast: 1.16

UNITED STATES

Fed plans: With all recent talk being about tapering stimulus measures, there is likely to be an amplification of interest in the subject during September. Fed Chair Jerome Powell has already indicated the bank is in no rush to raise interest rates, but having previously promised to cut the level of support in the form of purchases of bonds and other assets, markets are increasingly strident in their demand to know exactly how and when that will be done. Any bullish talk from the Fed, in this regard, will almost certainly bolster the already-strong Greenback.

Risk appetite: Following the upsurge in global risk sentiment due to the chaotic scenes in Afghanistan, as well as the ongoing spread of the Delta variant, appetite for safe havens has been elevated of late. This could taper off if the situation improves, which would undoubtedly remove some of the upward pressure on USD. Similarly, if markets start to shrug off concerns about Covid, the Dollar's recent gains could evaporate.

Q3 GBP/USD bank averaged forecast: 1.38