



GBP

In a widely expected move, the Bank of England cut interest rates by 25 basis points to 4.75% on Thursday. This was the year's second base rate cut after dropping from 5.25% to 5% in August.

With the US Dollar bolstered by the prospect of a Donald Trump presidency, the GBP/USD exchange rate had initially dipped by around 1.5%, but it recovered on Thursday following the Bank of England's decision. The BoE suggestion that Labour's recent Autumn Budget could be inflationary over time contributed to the rally. As traders concluded that interest rates might not drop as quickly as previously thought, the value of GBP was boosted.

Following the Autumn Budget, UK GDP will be closely watched. The most widespread criticism of the government's new tax and spend regime hinges on forecasts from the Office for Budget Responsibility, which still show uninspiring GDP growth in the UK. According to the OBR, the extra spending revealed by Reeves will give a short-term lift to economic output but will leave the average growth rate unchanged over the next five years.

Richard Hughes, head of the OBR, said, "Against a largely unchanged economic and fiscal backdrop since our last forecast in March, this budget delivers one of the largest increases in spending, tax and borrowing of any single fiscal event in history." The OBR's view is that the larger state will crowd out business activity and business investment, pushing living standards down by about 1% in the last year of its five-year forecast. But should UK GDP defy OBR expectations and show early signs of growth, we could see the pound go from strength to strength.

EUR

In a surprise announcement last week, German Chancellor Olaf Scholz fired his finance minister and caused the governing coalition to collapse. Government insiders thought that Donald Trump's return to the White House might force leaders of the Social Democrats, Greens, and the FDP to recognise the need for unity. However, the discord and rancour in Berlin appeared to show no signs of subsiding, and the collapse of the coalition government has thrown Europe's largest economy into turmoil.

Chancellor Scholz later announced that his government would face a confidence vote in January next year, if not earlier, with parliamentary elections now expected to be brought forward from the scheduled date in September. This news contributed to the Euro's existing problems, with EUR/USD languishing at its lowest level since June and GBP/EUR hitting a 31-month high, a level seen only twice since 2016.

While it would be nice to suggest that the era of uncertainty is over and plain sailing lies ahead, the level of uncertainty for people and businesses across the globe seems to be increasing. Any further destabilisation of the eurozone will likely have a significantly negative impact on the Euro.

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