



GBP

The pound has weakened against the dollar and other currencies following the release of the UK Gross Domestic Product (GDP) for Q3 on 15 November. GDP for the period July to September showed growth of only 0.1%, significantly lower than the 0.4% figure in Quarter 2 (April to June) and 0.6% in Quarter 1 (Jan to March).

The following Friday (22 November) saw the release of the overall Purchasing Managers Index (PMI), which fell into contraction in November, dropping from 51.8 to 49.9. The Manufacturing sector saw the most significant drop, sinking to 48.6. The disappointing PMI figures could continue to have a negative effect on sterling during the course of this week.

Some potentially positive news for the Pound came from a Reuters poll, which indicated that almost two-thirds of economists (46 out of 72) expect rates to be kept on hold at the Bank of England meeting in December.

While rate cuts are necessary for consumers to deal with rising living costs, these events have the potential to weaken the currency, so a pause on further cuts will likely have the reverse effect. The Bank of England also perceives the Autumn budget as "inflationary", which could also contribute to policymakers keeping interest rates higher for longer.

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EUR

Europe's economic data is also creating downward pressure on its currency. The bloc's combined PMI showed a fall in November from 50 to 48.1, with the Manufacturing sector dropping as low as 45.2 when it was released on Friday.

According to ING's Chief Economist of The Netherlands, "The November PMI is another wake-up call for eurozone policymakers that the economy continues to show signs of weakness. New business is weakening again for both manufacturing and services with export orders, in particular, being down sharply as the eurozone economy battles weak demand from abroad."

Markets have also priced in another interest rate cut by the European Central Bank on 12 December. Current estimations from Bloomberg suggest that the chances of this being either a 25 or 50-basis-point cut are on a knife edge. The diverging interest rate trajectories in the UK and Europe could be why the currency pair has remained depressed for the past couple of months and potentially underpins the two-and-a-half-year low the euro saw a fortnight ago.

This week, the German CPI inflation update is due on Thursday and is expected to remain at 2%. The following day, we will see the release of German retail sales figures. The measure shines a light on Germany's third largest sector, accounting for 17% of the country's GDP. Any deviation from market expectations could impact the euro, as Germany is one of Europe's largest economies.

Currency headlines



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Sam Mills

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