



GBP

Having posted a six month low against the USD on 22 November, GBP managed to find some much needed footing as market rates picked up by close to two cents at the time of writing. But a shift in expectations about interest rate changes in the UK has left the pound exposed. With inflation rising to 2.3%, the BoE is expected to pause any changes to monetary policy in its 19 December meeting.

This week's release of UK manufacturing and services PMI will likely shift the focus to the UK's economic performance. Business sentiment about the outlook for 2025 has soured. The Institute of Directors (IoD) has just released a survey showing that business confidence has declined to its lowest level since April 2020, when the first UK Covid lockdown was announced. Over 600 business leaders surveyed by the IoD believe that Rachel Reeves' budget will be a block to business investment in the new year.

Manufacturing PMI, which was released on Monday morning, showed a contraction to a nine month low. Output for September is 0.7% lower than it was a year before. The drop suggests there will be further challenges in the sector, caused by an uplift in costs and continued uncertainty in demand.

Tuesday sees the release of retail sales for November, which might offer potential relief with an anticipated strong improvement on the previous 0.3% release to 0.7%, as consumers begin their festive spending. Services PMI will arrive on Wednesday.

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EUR

Friday saw eurozone inflation rise to 2.3% for November, up from 2.0% in October, and above the European Central Bank's target for the first time in three months. The rise was widely anticipated with price increases in the service sector outweighing the reduction in energy costs across the bloc.

Eurozone monthly core inflation dropped by 0.4%, which suggests underlying price pressures could be easing. Services prices rose 3.9% year-on-year, but fell by 0.9% compared to October, offering a glimmer of hope for the inflation outlook.

While the annual increase marks a slight departure from the ECB's target, the monthly data shows a more optimistic trend. Consumer prices in the eurozone fell by 0.3% in November compared to October, which is the steepest monthly decline since January 2024.

While there remains a chance of a 50 basis point cut at the European Central banks meeting on 12 December, it looks unlikely. A rate cut in some form is widely anticipated, but concerns about Trump's trade tariffs on imports to the US have the potential to curb EU growth and will likely force a smaller rise.

Currency headlines



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