



GBP

UK retail sales fell unexpectedly in December, coming in at -0.3% versus expectations of a 0.4% rise and causing the pound to lose ground at the end of last week.

This followed a lower-than-expected GDP figure for November of 0.1%, with expectations having been at 0.2%, highlighting the challenge ahead for the UK economy through 2025. The Office for National Statistics said the UK economy showed no growth in the three months to the end of November, having declined 0.1% in both September and October. This did bring a drop in UK gilt yields, reducing the government's cost of borrowing. However, fears of stagnation in the UK continue to increase.

This week, UK Employment data, which includes average EUR/GBP softened below 0.8450 as weaker UK data boosted the probability of a Bank of England interest rate cut. The increased chances of a rate cut could see an increase in the selling off of GBP.

Ahead of the February rate meeting, chances of a 25bps cut continue to increase, and pricing action suggests that more than 75bps of cuts are expected through 2025. This has increased from 0.44bps on Monday last week.

This week, UK Employment data is, which includes average earnings and claimant count, is due for release on Tuesday. On Friday, consumer confidence will be key, especially on the tail of the unexpectedly poor drop in retail sales for December. We'll also see the latest Purchase Managers Index data released on Friday, which could also have an impact.

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EUR

The euro has been rising steadily against the pound so far in January this year. Although the USD is still strengthening, the sell-off of the pound is allowing for some euro strength in the GBP/EUR pair. Euro did have some brief respite against the dollar last week following weaker-than-expected US inflation data. However, this was pulled back by confirmation that the German economy contracted for the second year in a row, with much of the woes centred around manufacturing—a worrying indication for the EU's industrial powerhouse.

EUR woes were further emphasised by dovish comments from European Central Bank members. Following four interest cuts through 2024, the ECB now appears to be signalling that it will approach further cuts with caution. Exceptional uncertainty, particularly around both inflation and consumer confidence, are key factors to determine before they move to further ease monetary policy.

On Tuesday, the results of the German and EU ZEW economic sentiment survey will be released, before Christine Lagarde, President of the European Central Bank, gives a speech on Wednesday. The EU's latest PMI data are also released on Friday.

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