



GBP

2025 could experience a volatile start to the year as there are many market data releases this week, which could significantly influence the FX markets.

The pound started the year on the back foot against the dollar, with weakness from the currency also contributing to the dollar's current performance, following a run of mixed data at the end of last year.

The final Purchase Manager Index of 2024 on Monday 16th December seemed to contribute to sterling weakness after it showed the [manufacturing industry in the UK](#) was in contraction and crucially lower than markets anticipated.

GBP/EUR, however, remains at elevated levels and has only, in the last few weeks, come away from a two and a half year high, which was very close to touching a nine-year high, last seen just before the Brexit negotiations in 2016. The euro has been under selling pressure over the last few months, having seen the European Central Bank cut interest rates more than both the UK and the US.

Without many market events for the UK this week, it is likely that other currencies' volatility will impact the sterling's value. However, the key event on the horizon is the next Bank of England rate meeting in early February. Market expectation isn't currently helping to support the pound, as they are anticipating monetary policymakers will vote for an interest rate cut on 6th February, which would be its third rate cut since August 2024. As such, the pound could potentially lose further value in the lead-up to the meeting.

EUR

After starting the new year in its weakest position against the dollar since November 2022, the euro finished the week relatively positively, which has continued into the start of this week.

This is ahead of the release of the German headline CPI today, which is forecast to increase slightly [from 2.4% to 2.5%](#). This will be followed on Tuesday by interest data releases from other key European economies, including France and Italy and the overall European CPI, which is also forecast to show a rise in inflation [from 2.2% to 2.4%](#).

However, any potential benefits for the euro following these releases could be subdued by an expected increase in European unemployment later that day.

The latest German retail sales data will be released on Wednesday, with figures expected to ride from [last month's -1.5%](#) to 0.5%, which would represent a significant increase over the traditional festive shopping period. Thursday will then see the release of European retail sales, which is also expected to increase [from -0.5%](#) to 0.3%.

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