Weekly Brief

GBP

The pound has started this week on the front foot as it trades just shy of 2-month highs. Concerns have somewhat abated about the impact on the British economy of US President Donald Trump's tariffs and Sterling's strength follows better than forecasted news about UK GDP last week. It rose 0.4% in December alone and a cumulative 0.1% for the last quarter of 2024. The Bank of England's governor Andrew Bailey commented in an interview published on Monday that inflation was slowing and an expected pick-up in price growth later this year is unlikely to have long-term impacts on the UK economy.

Meanwhile, Keir Starmer has outlined his plans for UK support in the Ukraine saying he is "willing to contribute to security guarantees to Ukraine by putting our own troops on the ground if necessary", positioning Britain as a central figure in European security matters and showing he is ready to increase defence spending. Whether he has to act on his promise, which could have sustained impacts on economic policies, may rest on the outcomes of Monday's emergency summit in Paris between European leaders and talks due to begin Tuesday in Saudi Arabia between the US and Russia.

Labour market data is expected to show a Claimant Count change of 10,000 on Tuesday with unemployment forecasted to rise to 0.4%. However, wage growth forecasts are showing that 3-month average earnings are up to 5.9%, which would contradict Bailey's comments that inflation is slowing.

UK CPI is released 7am Wednesday with forecasters anticipating inflation to have picked up 2.8% year-on-year from January 2024 to 2025. This is an increase of 0.3% from December's figure. Bloomberg Economics report they expect the headline inflation average to hover above the 3% mark throughout 2025. However, with the economy currently somewhat weak, they are predicting three further interest rate cuts this year, one more than the two cuts currently being priced in by markets. This week will be finished with retail sales reporting on Friday which is expected to show 0.3% rises after coming in at -0.3% the previous month. PMI data is also due Friday and projected to hold steady on last month's figures.

EUR

With a snap election on Sunday 23rd February looming in Germany, the incumbent Chancellor Olaf Scholz said on Saturday that he anticipated the new government would create an exemption for defence and security spending when dealing with the nation's constitutional limits on public debt. The election currently looks unpredictable with only 30% of voters expected to back Friederich Merz's centre-right CDU party and polls indicating 38% of voters remain undecided.

Last week was relatively quiet for Eurozone data, with movements in the EUR/USD market predominantly driven by a weakening Dollar. This week looks somewhat busier with the German ZEW Economic Sentiment due Tuesday at 10am and PPI on Thursday at 7am. Improvements are anticipated and PPI forecast for a 0.6% rise. Eurozone consumer confidence reporting is out later on Thursday and anticipated to accord with last month's -14 figure. Likewise, PMI figures for the Eurozone on Friday morning are widely expected to reflect the previous data.

Currency headlines

GBP: UK GDP exceeds expectations, boosting the pound

EUR: Germany's snap election outcome remains unpredictable

USD: Dollar weakens following delayed tariffs and positive data

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