



GBP

UK GDP data for Q4 of 2024 was released two weeks ago and showed modest growth of 0.1%. Last week's UK CPI inflation was slightly higher than forecast at 3.0% year-on-year. These two figures have led to the market repositioning its expectations for the UK interest rate pathway in 2025, with a 0.5% drop to 4.0% being the current expectation. This repricing has been consequential by driving GBP strength over the past week as higher interest rates typically lead to short-term currency strength. The next BoE meeting is on Thursday 20th March, the outcome of which will be watched carefully. In other news, UK retail sales rose by approximately 1.7% in January, making an encouraging recovery from December's fall of 0.6%.

British Prime Minister Kier Starmer is to visit Washington this coming Thursday to meet with US President Donald Trump on the ongoing Russia-Ukraine peace talks, where he is expected to seek future security assurances for the Ukraine and Europe more widely. Starmer is under pressure to build bridges between the US and Europe during a crucial geopolitical time by securing concessions from President Trump, whose recent remarks about Ukraine have caught the attention of several European leaders over the past week. It is reported that during a call, Sir Keir Starmer told Ukrainian President Zelenskyy "that safeguarding Ukraine's sovereignty was essential to deter future aggression from Russia" and gaining sufficient agreement from Trump on his US visit will be imperative. A strengthening of relations with the US could boost Starmer's position both domestically and in Europe and the meeting is anticipated to inform changes in UK defence spending.

EUR

The German federal elections were held yesterday and saw the centre-right Christian Democrats (CDU/CSU) leading with 28.5% of the vote. The far-right Alternative for Germany (AfD) secured over 20%, while Chancellor Olaf Schulz's centre-left Social Democrats (SPD) had their worst result since 1887, with just 16.4% of the vote.

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Currency headlines



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USD: GDP and core inflation releases expected to influence policy



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The election outcome has led to mild EUR strength this morning with results fuelling optimism about fiscal policy rejuvenation that could invigorate Europe's largest economy. Germany has long been viewed as the most important economic power in the EU but has been hampered in recent years by coalition government infighting. The AfD are very unlikely to gain significant power with CDU/CSU and SPD expected to form a new two-party coalition and may stabilise short-term political uncertainty in the EU. However, the AfD's rise, although not unexpected, reflects a global trend towards political extremes and polarised discourse. This could see increased long-term uncertainty and weaken the euro.

German CPI inflation results are due out this Friday and the rates will significantly impact overall EU inflation due to the size of the German economy. As ever, the markets will watch this closely, but particularly given the backdrop of an anticipated 0.25% interest rate cut by the European Central Bank next week.

USD

The recent weakness of the US dollar has been driven by several factors including weak economic data, falling Treasury yields, and expectations of Federal Reserve rate cuts. With these concerns somewhat dissipating, the market focus will shift to the ongoing Russia-Ukraine peace talks and US trade tariff news. The impact of these on geopolitical risk and safe haven flows into the US dollar will be closely observed.

US GDP data is to be released this Thursday. Although the US is performing better than many of its peers, any signs of contraction in the figures could have consequences for the US interest rate pathway and cause the US dollar to weaken again.

The US Core PCE Price Index, as the Federal Reserve's key measure of inflation, will be monitored closely this week. Tracking price changes of consumer goods and services, it is anticipated to show a slight rise this month from 0.2% to 0.3% when it is released on Friday. In terms of interest rates, the US markets are anticipating about 1.8 rate cuts (or 45 basis points) this year. However, if Core PCE slows, markets may fully price in two rate cuts for 2025. Consequently, eyes will be on the two reports as their outcomes are likely to influence the Fed's policy and the market's expectations.

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