Weekly Brief

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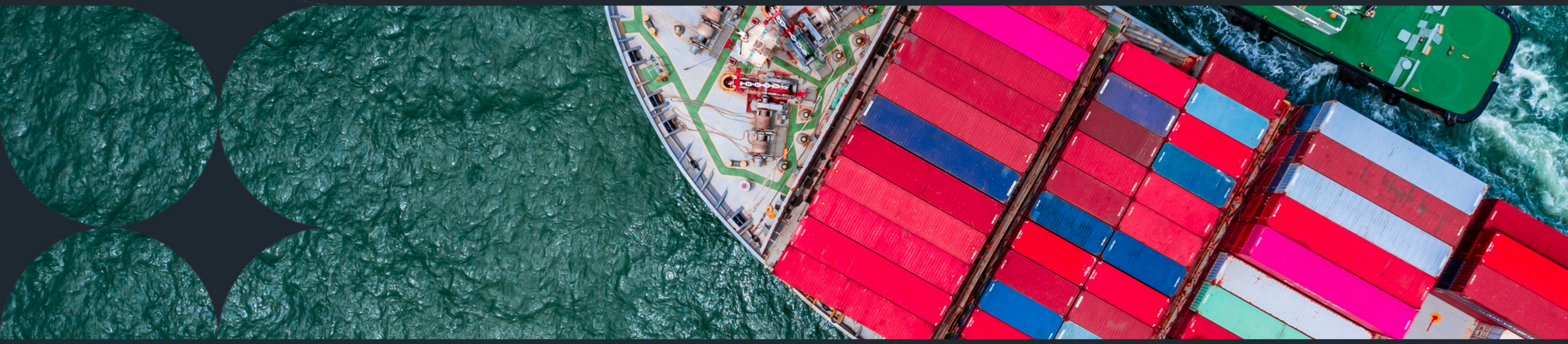

GBP

Although movement has been quick as the markets react to Trump's policy announcements, GBP/USD has been hovering at the 1.24 interbank level. The UK is viewed as a potential trade ally as it is so far avoiding Trump's tariffs, currently benefitting the Pound. How long will this last with the EU also applying pressure on the UK to stand in their corner if Trump's tariffs begin to encompass the bloc? This is a complex situation that should be monitored, particularly following on from the Bank of England's adjusted outlook for UK growth.

The Bank of England cut interest rates last week to an 18-month low of 4.5%, which was widely expected given price rises in the have UK continued to slow and left the GBP losing value. This comes despite expectations of an increase to inflation later this year to around 3.7% as consumers navigate a higher energy price cap, increased travel expenses and a rise in water bills. The belief is that this price rise will be temporary or an "upward blip" according to Huw Pill, the Bank of England's chief economist. The BoE Governor Andrew Bailey will speak later this week and his words will be followed closely after last week's interest rates announcement.

The economic outlook from the BoE is bleak, with expected UK economic growth halved to 0.75% after it has been flatlining since March 2024. Reduced demand and both the confidence of business and consumers after Rachel Reeve's budget appear to be having an impact as caution around spending creeps in. The GDP release on Thursday will providing some interesting insight here and is expected to sit at 0.1% for December.

EUR

The Euro has struggled to have an impact on the markets in recent weeks as the USD has dominated given its safe-haven status. Increased uncertainty around Donald Trump's next policy move has also been part of this story, particularly with the overhanging threat of trade tariffs being introduced to EU exports to the US, which the US President now appears to be following through with. Under pressure from the US Dollar, the Euro has had some respite from improved export figures in Germany, Europe's largest economy, at the end of last week

Furthermore, we do see some encouragement this morning for the single currency as the Sentix Investor confidence report shows that investor morale in the EU is at is at its highest since July 2024. Expectations of continued improvement in Germany has added some positive momentum here as we begin the week. EU GDP will be released on Friday and is the main event this week, with expected figure of 0.9% growth year-on-year.

Currency headlines

GBP: UK GDP braces for a bleak forecast

EUR: Investor morale at its highest since July 2024

USD: New import tariffs expected

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