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Weekly Brief

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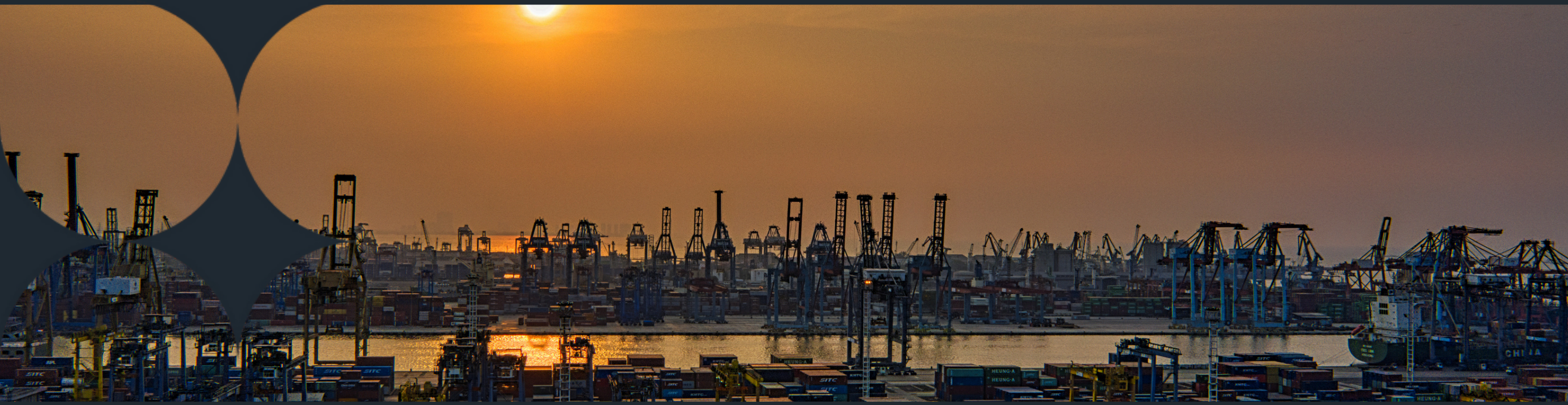

GBP

UK GDP data came in stronger than expected when it was released on Friday, showing the economy had expanded by 0.5% in February, with the services sector having a strong month.

Markets had expected UK growth to be just 0.1%, but there was a surprise boost in manufacturing and production. The pound appeared to capitalise on positive data against the USD with a gain of over 4 cents through the week, although this was also propelled, in part, by the significant dollar sell-off.

In contrast to the EUR, however, Sterling's performance was less favourable as it bounced within a one-cent range of 19-month lows. The pound is struggling to gain traction against the single currency due to a lack of fiscal spending on structural support and the loss of its tariff 'edge' compared the European Union as Trump delayed the 20% increase on EU imports by 90 days.

Data releases in the UK are relatively quiet in the run-up to the long Bank Holiday weekend, with unemployment data on Tuesday morning and inflation readings on Wednesday the two most likely to have an impact on Sterling's value. However, given current market nerves and a focus on global trade, uncertainty remains high and economic data could become secondary to FX rate moves.

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Currency headlines

GBP: UK GDP data was stronger than expected and expanded by 0.5%

EUR: Euro CPI inflation data is expected to stay at 2.4%, potentially boosting investor confidence

USD: US dollar has fallen more than 7% in value since January

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Head of Private Dealing

EUR

The euro remains a surprise benefactor of market nerves, and there has been a surge in demand for the single currency over the past two weeks. Last week, EUR posted its most significant weekly gain against the USD since September 2022, as uncertainty around the US economy continued to increase. Against GBP, the euro traded at a 19-month high before it fell away at the end of last week, a trend that has continued into the start of this week.

Eurozone financial markets continue to operate despite global turbulence and confidence in the European Central Bank's monetary policy grows. Although some hesitation around the European Central Bank decision on Thursday this week has begun to circulate, the likely outcome is still a further cut to interest rates.

This week will also see the latest CPI inflation data released on Wednesday, and is expected to come in at 2.4%, in line with last month's figure, which could add further confidence for investors.

USD

Recent volatility continues to dominate currency markets, with the US-China trade war being the primary focus. The global concerns around trade relations dominate trading activity despite several apparent reprieves by President Trump, such as exempting specific electronic devices such as iPhones and computing from his recent 145% tariff imposed on Chinese imports into the States. The motivation for the change is to continue to encourage investment in US companies such as Apple and Nvidia.

The reciprocal move from China to impose a tariff on US imports of up to 125% echoes the sentiment that China will continue to retaliate against Trump's tariff action. In fact, Chinese leader Xi Jinping commented directly on the trade situation with the US on Friday, stating that China is "not afraid of any unjust suppression" due to its self-reliance. This was echoed by further comments from the tariff commission in Beijing, which implied that US goods were already "no longer market-viable" in China and that any further tariff increases would be futile.

Since taking office for the second time in January, Trump has repeatedly increased tariffs on Chinese imports to the US, a trading relationship worth over $582bn a year to the global economy. With such significant levels of uncertainty over costs, reports of Chinese workers being placed on leave and cancelled orders by US companies from Chinese factories continue to circulate.

In the meantime, the significant swathe of USD selling continued to dominate FX markets, causing high levels of movement with the pound, which is swinging within a broad range and at a demonstrable loss in value against the euro. Overall, the US Dollar has fallen more than 7% in value since January.

Seeing such a marked sell-off of the USD is unusual due to its position as a safe-haven currency and emphasises the uncertainty currently felt on a global level. The Bloomberg Dollar Spot Index fell at its fastest pace in three years and saw investors seek out alternative 'safe havens' in the Swiss franc, Japanese yen, gold and, interestingly, the euro.

The overriding concern being felt in the market is that tariffs could deliver an inflationary shock in the US economy as imports increase in price and cause economic growth to stall. This could trigger stagflation in the US, which will cloud predictions on the monetary policy stance of the Federal Reserve, as higher prices but stagnant growth are particularly challenging to navigate with economic policy.

Last week's inflation data from the US, however, continued to be encouraging, with consumer and producer prices currently showing some resilience to the economic shock. PPI and Core PPI came in at 2.7% and 2.8%, respectively, showing that inflation was cooling slightly from the month before, but next month's figures will give further clarity moving forward.

US retail sales data for March on Wednesday and the Philadelphia Fed manufacturing survey on Thursday will provide further insight into consumer and producer confidence before tariff implementation.