Choice

SPECIAL REPORT

30th April, 2021

Sterling Pound Could Find Further Strength with Britain's Economy to see faster Growth than the United States in 2021

The Sterling pound appreciated by 3.16% during the April month to Rs.103.95 with Britain is showing signs of economic recovery from the COVID-19 pandemic as it gradually relaxes its latest lockdown measures, according to a range of timely and forward-looking indicators. But then, Pound currency is still witnessing decline with recoveries in the US Dollar Index and Bond Yields. Higher Gold prices has also added weakness for the currency in the past couple of days.

Looking forward for the coming month, we expect Sterling pound to trade bullish as investors remain increasingly optimistic surrounding the UK's economic recovery from the coronavirus pandemic with the NHS Covid-19 vaccine booking system in England has now extended who are aged 42. Similarly, the European Parliament has voted **overwhelmingly in favour of the post-Brexit trade deal between Britain and the European Union (EU)** by 660 votes to 5 votes, clearing the last hurdle towards full ratification of the accord of the trade and cooperation agreement. The European Parliament's consent brings to an end over four years of acrimonious negotiations and debate as Britain ended 47 years of EU membership, but mistrust continue linger between both of them. European Commission president Ursula von der Leyen said recently that she warmly welcomed the vote. She further added that the **TCA (Trade and Corporation Agreement)** marks the foundation of a **strong and close partnership with the UK** with faithful implementation is essential. On the other hand. British Prime Minister Boris Johnson recently said that it was the final step in a long journey, providing stability to Britain's new relationship with the EU. He further adds that its time to look forward into the future and to building a more global Britain.

The Bank of England is likely to ease its foot off the **stimulus pedal and reduce its pace of bond purchases in the coming week as Britain's economy** appears to be bouncing back sharply from its COVID pandemic slump. **Retailers and restaurants are reopening**, while retail sales exceeded pre-pandemic volumes in March and purchasing managers' indexes in April hit their highest since 2013 as a rapid vaccination programme helped reduce a devastating flood of COVID-19 cases at the start of the year. Just over three months ago, **financial markets saw a roughly 50% chance** that the Bank of England would need to cut interest rates below zero for the first time later this year. Experts are speculating that the Monetary Policy Committee (MPC) will begin to raise rates from their current 0.1% towards the end of 2022. The MPC is in neutral mode, but markets are looking forward towards the point where the MPC will begin to leave its ultra-loose stance in the later future.

With the United States Federal Bank maintaining the interest rates at **0.25%** has eased the worries in other western countries. In addition, **fuelling inflation** in the European Union and United States has given strength to the supply chain scenario over the borders. Britain's economy is now set to see **faster growth than the United States** this year as the nation races ahead with its vaccination programme. Unlike the U.S. Federal Reserve or the European Central Bank, which committed to open-ended bond purchases to support their economies, the Bank of England set specific targets. The **Bank Of England's 875 billion-pound government bond purchase target is supposed to be reached at the end of 2021,** but unless it slows the current pace, either now or in June or August, it will hit the goal about three months too soon. In February, the Bank of England has forecasted that the economy would grow **5%** this year after output slumped by almost **10%** the year before, the biggest decline in over 300 years. Bank of England alternatively would be able to increase its target, as it did repeatedly in 2020, but the much improved economic outlook makes this unlikely.

Simultaneously, the finance minister Rishi Sunak is helping the UK's economy to improve by extending his **job support measures until the end of September**; when the economy is supposed to be fully reopened and prolonged tax incentives for house purchase that have fuelled a boom in property sales. Elsewhere, the Bank Of England Deputy Governor Ben Broadbent broadly expects **"very rapid growth"** over the coming quarters but warned that could mask underlying economic weakness. Thomas Pugh of Capital Economics added that they are going to come out with a new, more positive set of economic forecasts and at the same time they will be trying to dampen down market expectations and that is going to lead to faster rate increases. The Bank of England has recently mentioned that the rapid rebound does not mean policy would need to be tightened quickly. First, it wants to see **inflation sustainably back near its 2%** target and progress towards resolving the hit to the labour market created by the pandemic. However they remain cautious regarding the **trade frictions created by Brexit** will remain persistent that can drag on growth of the economy. A final complication is that the Bank of England is reviewing whether to prioritise bond sales over rate rises when it tightens policy, after concerns last year from Governor Andrew Bailey at the scale of past purchases.

Taking about certain economic indicators, the April flash PMI was much stronger than expected in the UK, with the services PMI moving strongly further into expansionary territory. Likewise, the Final GDP q/q by 1.3% from 1.0%. CPI y/y from UK came in at 1.5% for Mar'21, higher compared to market expectations of 1.4%. Moreover, Retail Sales m/m has increased to 5.4% from 1.5% of the forecasts. Flash Manufacturing PMI has also been reported at 60.7 compared to the forecasts 59.0 of the forecasts. Moreover, the Services PMI has decreased to 60.1 compared to 58.9 of the market expectations. The Halifax HPI m/m has been reported at 1.1% compared to 0.3% of the forecasts.

Overall, the above fundamental factors is expected to strengthen the sterling pound and we expect GBPINR to trade in the range of 100.5-106.5 levels in the month ahead.

Research Team

Mr. Sumeet Bagadia : Executive Director

Sunand Subramaniam	**Sachin Gupta**	**Diksha Mhatre**	**Vishal Singh**
Sr. Research Associate	Sr. Research Associate	Research Advisor	Research Advisor

Sunandh Subramaniam