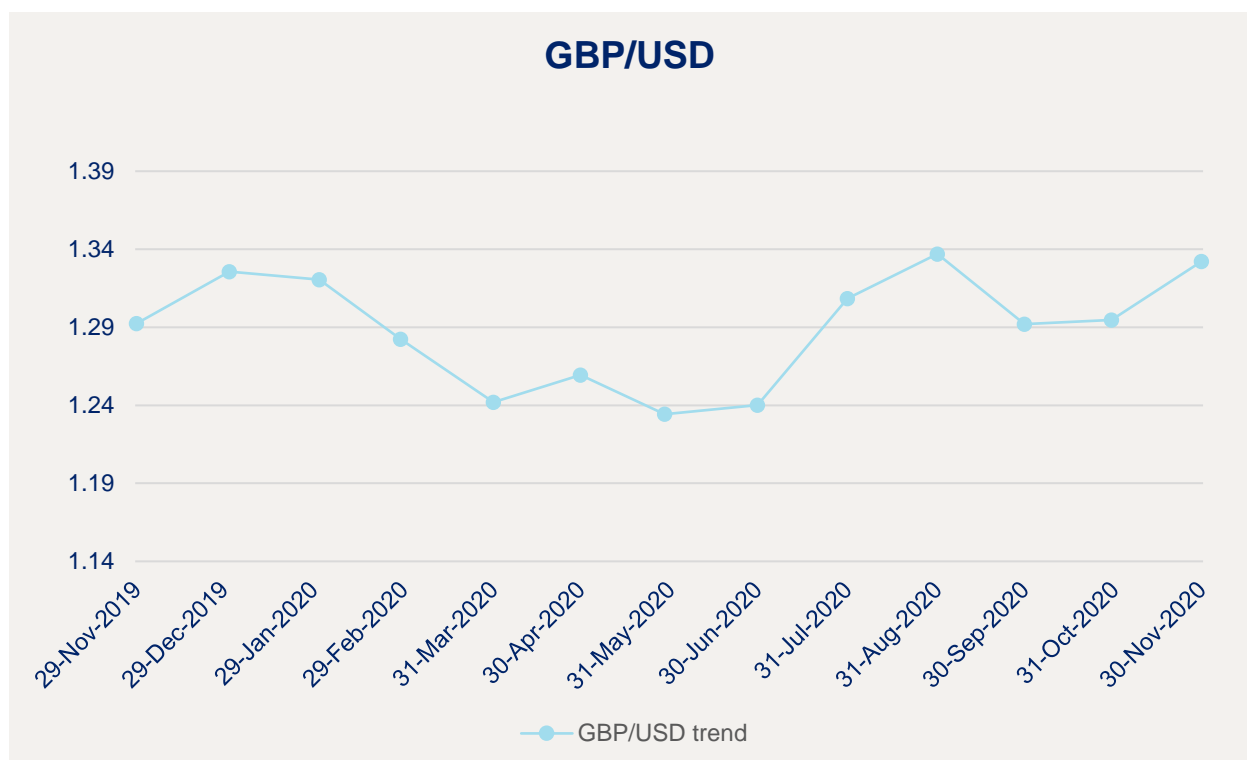# UOB

UOB Investment Insights
FX Insights

10 December 2020

A Cautiously Optimistic View on Great Britain Pound (GBP)

- A last-minute Brexit deal will mean a clear positive on GBP

- The multi-year underperformance of GBP could start to unwind

- A modestly higher GBP/USD is expected in 2021

Our base case is that the UK and the EU will strike a last-minute Brexit deal before the end of 2020. If this happens, the multi-year depression of the Great Britain Pound (GBP) could finally be over. Since the UK's surprise decision in June 2016 to leave the EU, GBP/USD was mired in a three-decade low trading range of between 1.14 and 1.43. The underperformance of the GBP was also broad-based as a result of its trade-weighted index having been stuck in the lowest quartile over the last four years. As such, a Brexit deal – should it come to pass – could be the trigger that GBP needs to break through its low ranges.

Our previously cautious stance on GBP/USD has now been upgraded to a cautiously optimistic view. While the fog of Brexit may finally clear, we tend to curb our enthusiasm on the GBP – the economic outlook remains highly uncertain as a result of the current COVID-19 situation in the UK. Fears towards negative rates is also a lingering headwind for the currency. Overall, our GBP/USD forecasts have been updated to 1.35 in 1H21 followed by 1.36 in 2H21.

Source: Bloomberg. Data as at 30 November 2020.

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