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UOB Investment Insights

FX Insights

6 December 2021

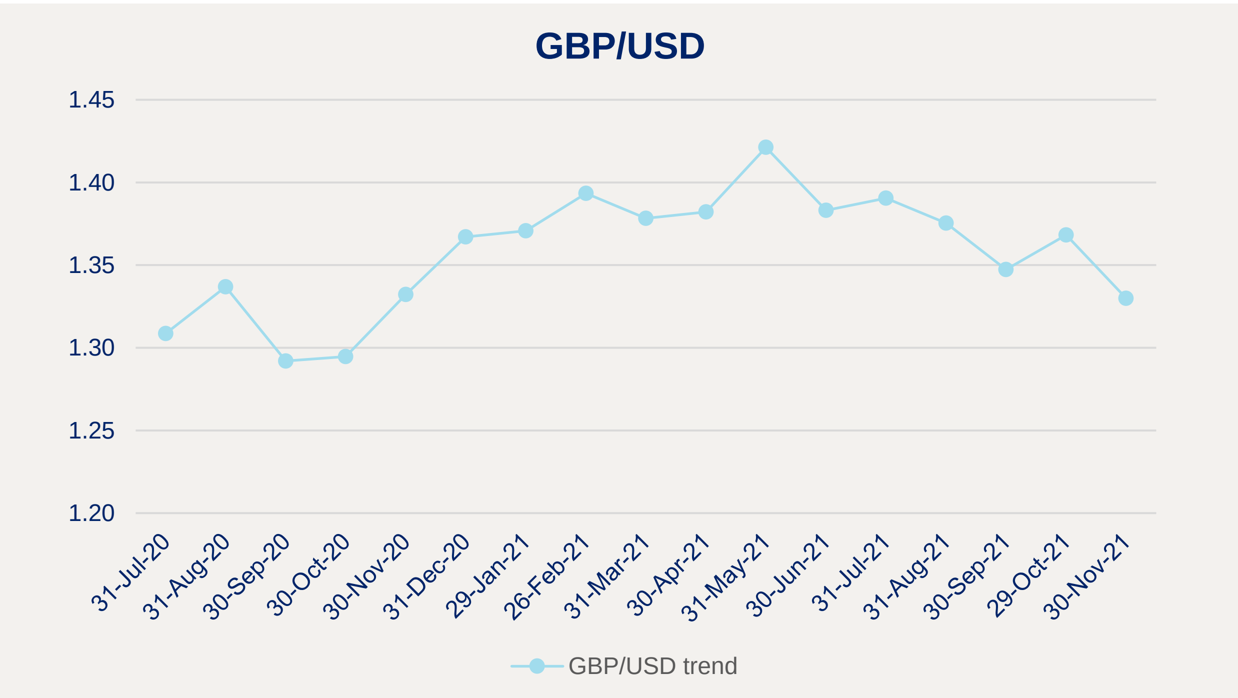
GBP To Head Higher In 2022

- GBP/USD fell to year-to-date low on Bank of England's inaction in November
- UK interest rates still heading higher, GBP will follow suit
- Maintain bullish view on GBP

The Sterling Pound (GBP) suffered a setback in November after the Bank of England held back on a widely expected interest rate increase. The GBP/USD fell from 1.37 to 1.33 just as market volatility jumped to the highest since March. The sudden arrival of the Omicron virus variant also weighed on the currency pair as it cast a shadow on Britain's recovery plans.

Despite the near-term setback and possible Omicron risk, the United Kingdom (UK) rates markets will likely continue to price in at about 100 basis points of interest rate increases over the next one year. GBP is likely to benefit when domestic interest rates eventually head higher. Currently, the GBP is still attractive on a trade weighted basis over the long term as it has yet to recoup from the weakness spurred by Brexit in the last couple of years.

Overall, we keep to our upward trajectory in GBP/USD and for it to trade above 1.40 next year. A risk to our positive GBP outlook is that UK could potentially invoke Article 16 of the Northern Ireland Protocol – which would suspend parts of the Brexit deal reached two years ago – and spur further volatility in the GBP.



Source: Bloomberg. Data as at 30 November 2021.

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