UOB Investment Insights

FX Insights

5 June 2020

GBP's recent rally likely short-lived amid economic uncertainty

- The Sterling Pound (GBP) has stabilised after its spectacular fall in March
- The UK economy is still expected to contract sharply in 2020 due to the COVID-19 pandemic
- Brexit uncertainties and dovish Bank of England could weigh on the GBP in the near term

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GBP/USD has recovered to above 1.20 after a collapse in March – from 1.30 to a multi-decade low of 1.14 – as a result of the COVID-19 pandemic. In response to the pandemic, the Bank of England (BOE) has cut its key interest rate from 0.75% to a mere 0.10% while expanding its crisis-era bond purchase programme from GBP 200 billion to GBP 645 billion. The central bank also forecast that UK's growth would fall by 14% over 2020, making it the sharpest annual downturn since 1706.

In the near term, there are a couple of factors that could weigh on the GBP. Firstly, without an extension of the Brexit transition period – during which the UK must submit a request by end-June 2020 – the chance of the EU and UK reaching a trade deal by end of 2020 looks unlikely.

This adds to the ongoing economic uncertainty brought about by the pandemic. Secondly, the BOE is also expected to further expand its bond purchases during the upcoming June meeting, which will dent the prospects of its currency. Overall, we forecast GBP/USD to be at 1.23 in 3Q20.

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