



British pound

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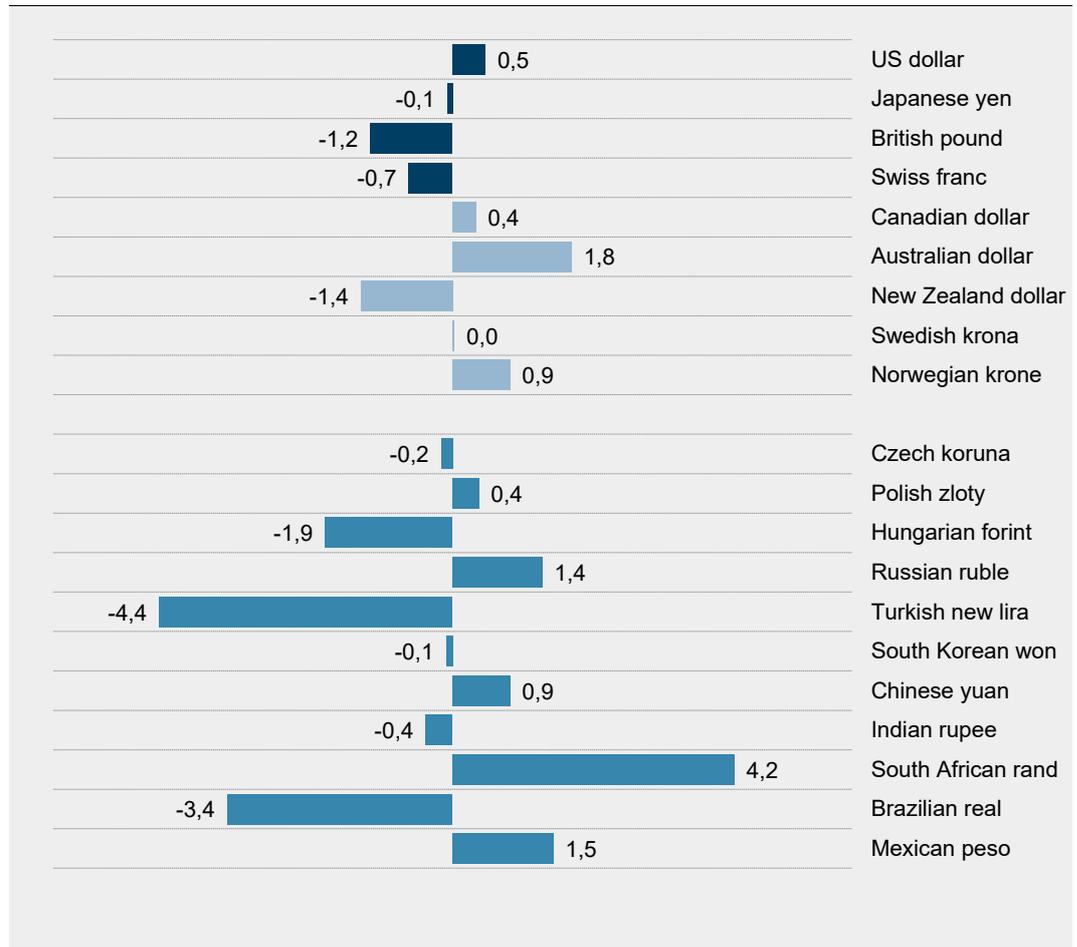
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- The Brexit was postponed to the end of October. The pound sterling hardly reacted and had probably anticipated this. The political standstill in London continues for the time being, and the outcome of the drama appears more open than ever. In the course of the year, however, there are likely to be political movements that will ultimately lead to an orderly exit from the EU. The pound, which is already rather undervalued, would benefit from a diminishing uncertainty and appreciate against the euro and especially the US dollar.
- The British pound has recently recorded slight losses, and overall movements in the major currencies have been limited. In the emerging markets, the Turkish lira and Brazilian real lost ground, while the South African rand appreciated significantly.
- Helaba Currency Forecasts

Performance on a month-over-month basis

% vs. euro compared to the previous month (from 03/19 to 04/17/19)



■ Core currencies ■ Rest of G10 ■ Currencies of emerging markets

Sources: Bloomberg, Helaba Research

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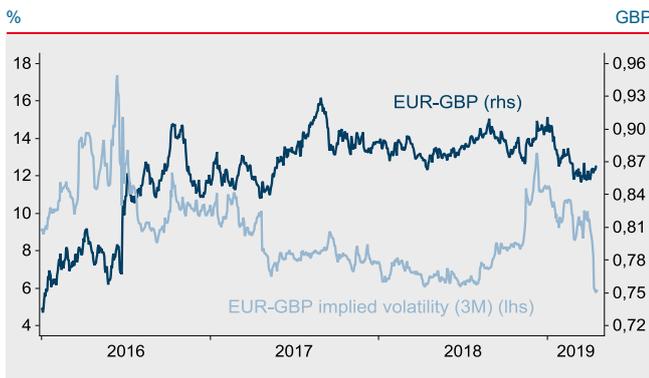
GBP: Brexit dragging on

Still no Brexit! Even after the extended deadline has expired, The United Kingdom still finds itself in the European Union. The EU once again tempered justice with mercy and granted the British a further extension of the deadline for their withdrawal until 31 October 2019. This meant that the "chaos" Brexit did not happen on 12 April. The currency market reacted calmly, the pound was marginally weaker against the euro and hardly changed against the US dollar. In view of the political turbulence, the British economy is doing comparatively well. While the outcome of the Brexit drama seems more open than ever, for the time being there is no danger of trouble.

Three times "No", now help from Labour?

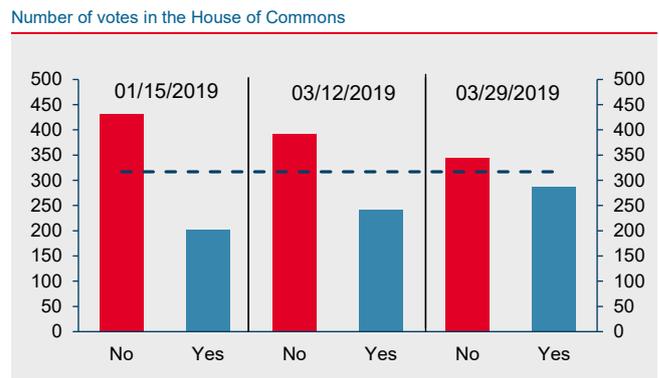
The extension of the deadline entails that Britain must participate in the European Parliament elections – otherwise the country will be kicked out by 1 June. The British have the right to leave the EU early once the withdrawal agreement has been ratified. But the chances of this happening – at least in the short term – are not exactly rosy. The British Parliament has already rejected the withdrawal agreement negotiated by the government with the EU three times, even if the number of 'no' votes declined by about 40 each time. The remaining Brexit hardliners can hardly be dissuaded from their negative stance. Almost three years after the referendum, Prime Minister May then approached the more EU-friendly opposition. However, the leader of the opposition Labour Party, Jeremy Corbyn, has not been particularly cooperative so far. After all, Labour is also dominated by party tactics and hopes for a change in power. Corbyn has little criticism of the substance of the the withdrawal agreement, his issue is rather with the declaration on future relations with the EU. The opposition favours a kind of customs union, something the conservative government has long ruled out.

Brexit postponement diminishes worries, pound stable



Sources: Macrobond, Helaba Research

Defeat for May's deal narrower each time



Sources: BBC, Helaba Research

Customs union as a solution?

What argues against a customs union is that United Kingdom would then not be allowed to negotiate its own free trade agreements – for goods – and would have to bow to EU rules without having a say. However, it is questionable with whom the British should conclude large trade agreements by themselves. Within the framework of a customs union, the EU could theoretically grant the British a certain say, but so far it has been stubborn. In principle, such a "soft" Brexit would be a suitable solution. So far, neither the government and the opposition nor the EU have moved sufficiently.

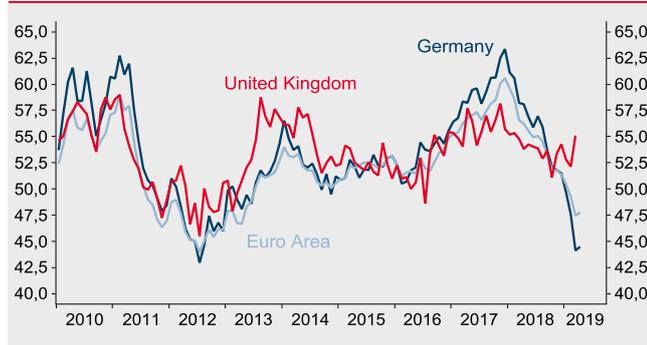
Alternatives such as a second referendum, a retraction of Brexit, or a disorderly withdrawal find have even less of a chance of finding majorities in the House of Commons. While a disorderly exit is the legal solution if there are no other decisions by 31 October, even then the EU could extend the deadline once again. However, the political stalemate could be resolved in other ways. May is under pressure from her own party to give up her office prematurely. A new party leader would have more manoeuvring room. Another possibility would be new elections. The polls are unclear; in the face of narrow majorities, the pendulum could swing in one direction or the other. Then nothing could be completely ruled out: from a second referendum under a Labour government to a deliberate "no deal" Brexit under a conservative hardliner.

Moderate growth

Uncertainty is poison for the economy. However, despite all the political chaos, the British economy is holding up comparatively well. Growth essentially declined after the referendum, but it has stabilised at a low level. Gross domestic product has recently even shown higher growth rates than in Germany or the euro zone – in particular, the first quarter of 2019 will presumably be good. The purchasing managers' indices underline this trend. However, the data is somewhat misleading. This is because companies increased their inventories in the run-up to the original Brexit date. In the coming months there is therefore the threat of a counter-movement in inventories. At least some companies are planning to reduce their production in April, which could have a negative impact on the data in the short term. The continuing uncertainty has put a noticeable strain on business investment. As long as there is no clarity, major catch-up effects are unlikely. Beyond the specific form Brexit will take, a number of international groups are relocating their activities from the island, which will have a negative impact on growth in the coming years.

British economy relaxed despite Brexit chaos

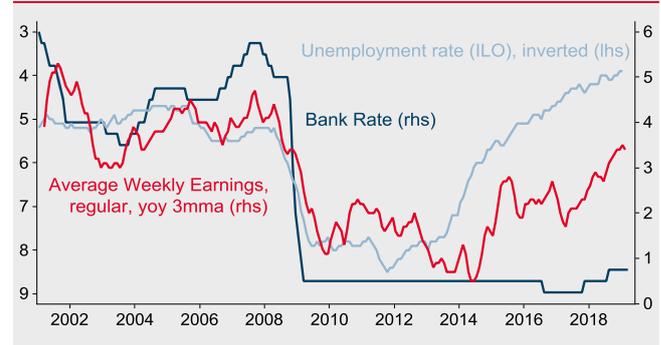
Purchasing Managers' Indexes, manufacturing sector



Sources: Macrobond, Helaba Research

Robust labour market without repercussions for BoE

%, inverted % yoy



Sources: Macrobond, Helaba Research

Bank of England taking wait-and-see stance

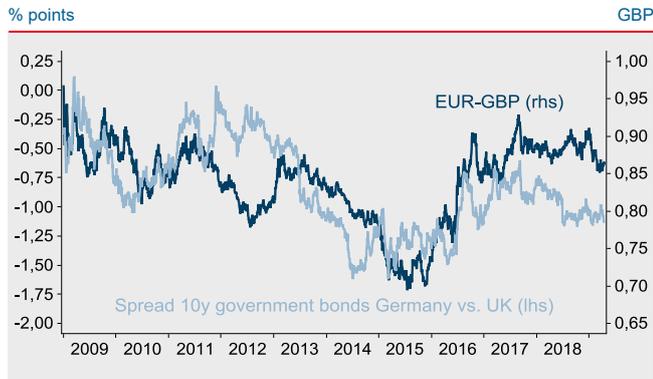
Private consumption, on the other hand, is solid. In view of the robust labour market and higher wages and incomes, it is stabilizing economic growth. Fiscal policy is also sending slight impulses for growth. If, contrary to expectations, a "chaos" Brexit does take place after all, the British economy should grow by 1.2 % in 2019. The Bank of England, like the Federal Reserve and the ECB, is waiting for the moment in view of the high level of uncertainty. Inflation in the UK fell recently and will probably fluctuate around the 2 % mark in the course of the year. On the other hand, the development in the labour market would argue for a more restrictive monetary policy. Should the Brexit drama resolve itself and the global economic uncertainties recede into the background, the Bank of England could be the first of the major central banks to raise its key interest rate in 2020.

The British pound has appreciated against the euro and the US dollar since the beginning of the year. This suggests that concerns about "no deal" Brexit have been easing in recent months and explains why the pound has barely benefited from the extension. In purely fundamental terms, the British currency is cheap. The British yield advantage over the euro is stable. The interest rate disadvantage against the US dollar shrank. With a tailwind from its own central bank, the differences should move in favour of the pound. Purchasing power parities suggest a slight undervaluation against the euro and a marked undervaluation against the greenback. Short-term speculators have recently reduced their bets against the British currency, so that little impetus should come from this side. However, some investors and companies have withdrawn money from the UK out of fear of turbulence, which could flow back in the event of an amicable Brexit solution. The chances of a further appreciation of the pound are thus good – albeit with not inconsiderable risks. After all, a "chaos" Brexit would probably hit the British economy and currency hard.

Long-term risks, too

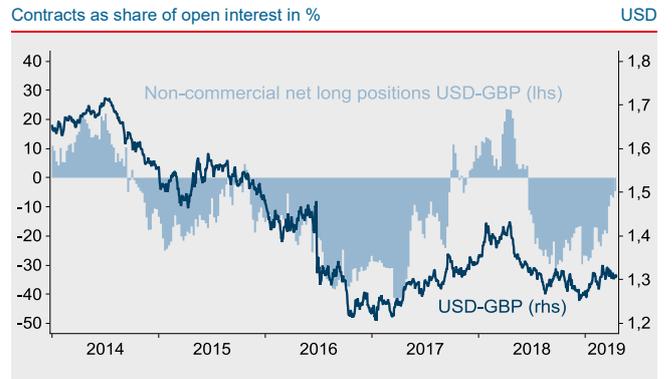
While valuation aspects speak in favour of the British currency in the long term, there are also risks beyond the Brexit. With a current account deficit of just under 4 % of GDP in the previous year, the UK is dependent on foreign capital. While the pound itself is not a classic safe-haven currency, the country is still regarded as a politically and legally stable investment location. Should the current party system dissolve in the Brexit maelstrom and politics – including economic policy – change significantly, this could give rise to doubts.

Pound sterling rather undervalued



Sources: Macrobond, Helaba Research

Speculators unwinding their bets against the pound



Sources: Macrobond, Helaba Research

Pound appreciation in case of an orderly Brexit

So what's going to happen with the Brexit? Perhaps in the near future the British Parliament will sign off on the withdrawal agreement, after all, or on a deal with additional declarations with opposition support. And if not? A "no deal" might be possible, but an extension of the extension of the extension would be more likely. We assume that Britain will ultimately leave the EU in an orderly manner, even if the withdrawal is delayed even further. The pound sterling should benefit from the end to the uncertainty. The euro-pound exchange rate is likely to fall from 0.86 to 0.80. The pound-dollar exchange rate could even climb from 1.30 to 1.50. Further extensions would, however, delay the appreciation of the pound.

Helaba Currency Forecasts

	Performance			Forecast horizon at end ...			
	year to date	1 month	current*	Q2/2019	Q3/2019	Q4/2019	Q1/2020
vs. Euro	(vs. Euro, %)						
US dollar	1,5	0,5	1,13	1,20	1,20	1,25	1,25
Japanese yen	-0,6	-0,1	127	128	128	132	132
British pound	3,8	-1,2	0,87	0,85	0,80	0,80	0,80
Swiss franc	-1,4	-0,7	1,14	1,15	1,15	1,20	1,20
Canadian dollar	3,8	0,4	1,51	1,52	1,52	1,58	1,58
Australian dollar	3,4	1,8	1,57	1,60	1,58	1,58	1,56
Swedish krona	-2,8	0,0	10,45	9,80	9,60	9,50	9,50
Norwegian krone	3,2	0,9	9,60	9,10	8,90	8,80	8,80
Chinese yuan	4,1	0,9	7,56	8,28	8,28	8,50	8,50
vs. US-Dollar	(vs. USD, %)						
Japanese yen	-2,1	-0,6	112	107	107	106	106
Swiss franc	-2,8	-1,1	1,01	0,96	0,96	0,96	0,96
Canadian dollar	2,2	-0,2	1,33	1,27	1,27	1,26	1,26
Swedish krona	-4,3	-0,5	9,25	8,17	8,00	7,60	7,60
Norwegian krone	1,7	0,4	8,49	7,58	7,42	7,04	7,04
Chinese yuan	2,8	0,4	6,69	6,90	6,90	6,80	6,80
US-Dollar vs. ...	(vs. USD, %)						
British pound	2,3	-1,7	1,30	1,41	1,50	1,56	1,56
Australian dollar	1,8	1,3	0,72	0,75	0,76	0,79	0,80

*17.04.2019

Sources: Bloomberg, Helaba Research ■