

FX Watch

GBP: Forecast Revisions

Key takeaways

- We are making upward revisions to GBP forecasts. EUR/GBP @ 0.84 by y/e; GBP/USD @ 1.37. Risks skewed to higher GBP
- Strong labour data and improving fundamentals argue for higher for longer as BoE the last to tighten. Carry should dominate
- Medium-term concerns still a concern on structural headwinds. Most of GBP vs EUR in '24. Cable fwds offer discount to fcasts

14 February 2024

G10 FX Strategy
Global

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Upward GBP Revisions

Our increasingly constructive view on GBP is now formally hardcoded into our 24-25 profile. Exhibit 1 highlights the key changes to those forecasts: Our 2024 y/e target shifts from 0.88 to 0.84 and from 0.86 to 0.85 in 2025. GBP/USD is revised from 1.31 to 1.37 by y/e 2024 and from 1.40 to 1.41 in 2025. As both Exhibit 2 & Exhibit 3 show, much of the GBP appreciation is front-loaded this year as policy divergence dominates sentiment. The pace of appreciation slows into 2025 as GBP/USD approaches fair value and as structural headwinds exert themselves on the UK economy.

GBP = USD of Europe

What has been relevant for the US can equally be applied to the UK with both economies suffering from elevated services inflation and tight labour markets. Though US growth has been stronger for longer versus the UK, the nuance here is that expectations around UK macro have been very low. With the domestic economy continuing to improve, the pessimistic read on UK growth is harder to reconcile. We find ourselves on the optimistic side of the consensus(Exhibit 4). BofA is more bullish on GBP/USD than the consensus and is trading at significant premium to forwards. This could create interesting hedging opportunities in the year as growth peaks out and as event risks such as the General Election (& US Presidential Election) pressure volatility higher. For EUR/GBP, our profile is almost the mirror image of the consensus (Exhibit 5) but similar risk factors apply as stated above vs the forward curve.

Exhibit 6 provides a summary of forecasts for the major GBP/G10 FX pairs. GBP is expected to outperform most the G10 complex except for AUD, NOK, SEK. Based on our projections, GBP should end the year with as one of the strongest G10 by the end of the year with GBP/USD gravitating towards our measure of fair value and under our broader views on USD weakness.

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Exhibit 1: Key revisions to GBP/USD & EUR/GBP forecasts

We revise lower our 2024/25 targets for EUR/GBP & revise up for GBP/USD

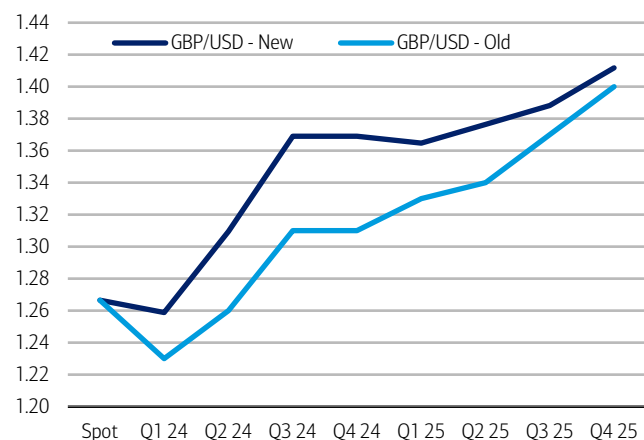
		2024				2025			
	Spot	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
EUR/GBP - New	0.85	0.85	0.84	0.84	0.84	0.85	0.85	0.85	0.85
EUR/GBP - Old	0.85	0.87	0.87	0.88	0.88	0.87	0.87	0.86	0.86
GBP/USD - New	1.27	1.26	1.31	1.37	1.37	1.36	1.38	1.39	1.41
GBP/USD - Old	1.27	1.23	1.26	1.31	1.31	1.33	1.34	1.37	1.40

Source: BofA Global Research estimates

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Exhibit 2: GBP/USD forecasts – New vs Old.

Upward revisions to GBP/USD fcasts frontloaded in 2024

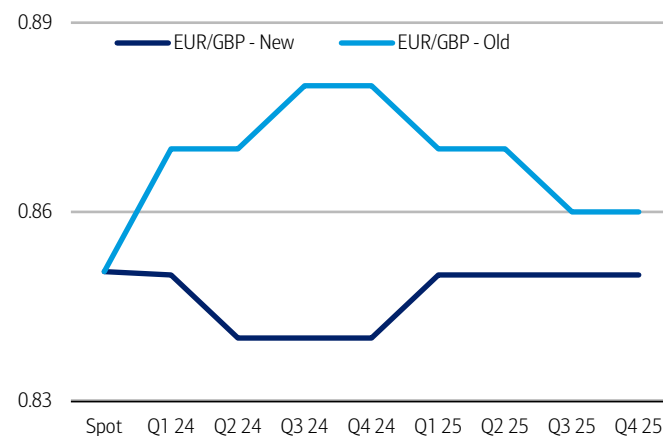


Source: BofA Global Research, Bloomberg

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Exhibit 3: EUR/GBP forecasts – New vs Old.

EUR/GBP to trough at 0.84 in H2 2024

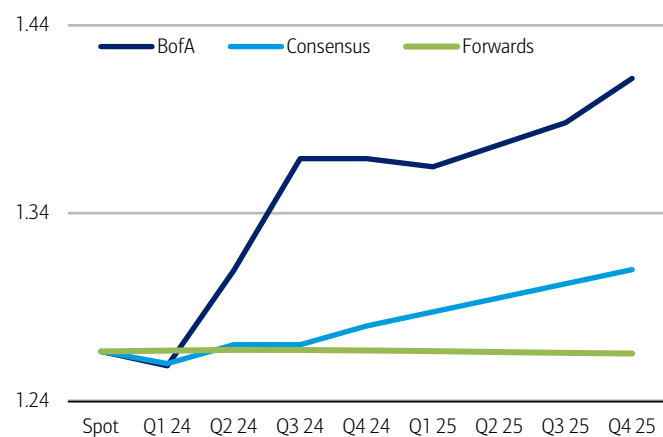


Source: BofA Global Research, Bloomberg

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Exhibit 4: BofA GBP/USD fcast vs consensus & forwards

Cable forwards at significant discount to forecasts

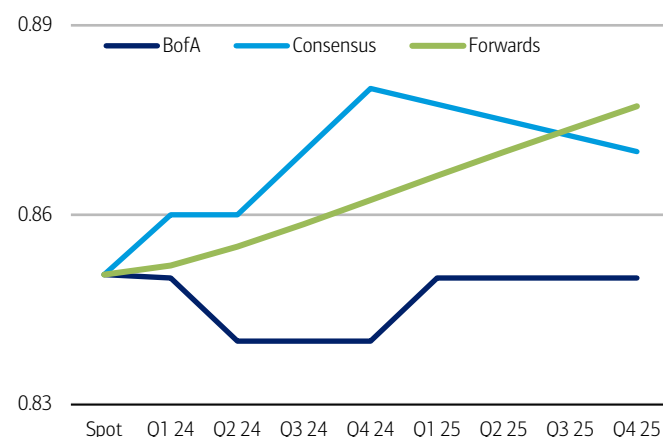


Source: BofA Global Research, Bloomberg

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Exhibit 5: BofA EUR/GBP fcast vs consensus & forwards

Consensus looking for renewed EUR/GBP upside



Source: BofA Global Research, Bloomberg

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Exhibit 6: GBP forecasts vs G10

We look for broad based strength in GBP through '24 & '25

	Spot	2024				2025				F'cast GBP return from Spot	
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Y/E '24	Y/E '25
GBP/USD	1.2567	↑ 1.26	↑ 1.31	↑ 1.37	↑ 1.37	↑ 1.36	↑ 1.38	↑ 1.39	↑ 1.41		
EUR/GBP	0.8522	↓ 0.85	↓ 0.84	↓ 0.84	↓ 0.84	↓ 0.85	↓ 0.85	↓ 0.85	↓ 0.85		
GBP/JPY	189	↓ 183	↓ 187	↑ 194	↑ 194	↑ 191	↑ 190	↓ 189	↑ 192		
GBP/CHF	1.1142	↑ 1.13	↑ 1.14	↑ 1.15	↑ 1.15	↑ 1.15	↑ 1.18	↑ 1.18	↑ 1.18		
GBP/CAD	1.7040	↓ 1.70	↑ 1.75	↑ 1.81	↑ 1.78	↑ 1.77	↑ 1.79	↑ 1.80	↑ 1.84		
GBP/NOK	13.3917	↑ 13.65	↑ 13.45	↓ 13.10	↓ 12.98	↓ 12.83	↓ 12.70	↓ 12.59	↓ 12.47		
GBP/SEK	13.2802	↑ 13.76	↑ 13.57	↑ 13.33	↓ 13.21	↓ 13.06	↓ 12.94	↓ 12.83	↓ 12.71		
GBP/AUD	1.9417	↓ 1.91	↓ 1.93	↓ 1.93	↓ 1.93	↓ 1.92	↓ 1.94	↑ 1.96	↑ 1.99		
GBP/NZD	2.0680	↑ 2.10	↑ 2.11	↑ 2.17	↑ 2.17	↑ 2.17	↑ 2.18	↑ 2.20	↑ 2.24		

Source: BofA Global Research, Bloomberg

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