

# Currency Forecast

January 2022

## Last month's highlights

The pound traded in a wide range through December. Following the emergence of the Omicron Covid variant in late November the UK was met by a rapid surge in new cases, prompting the UK government to implement its Plan B restrictions.

Further volatility was infused in GBP exchange rates in the first half of the month after the Bank of England surprised markets by voting to raise interest rates for the first time in three years.

Sterling ultimately closed December on a high as the

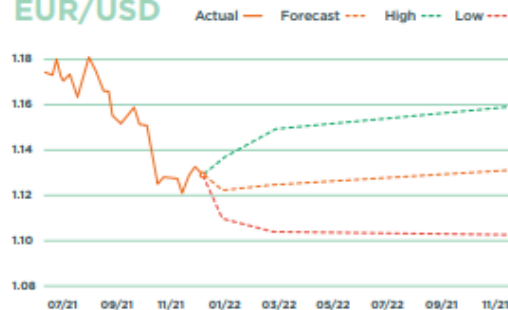
UK government's decision not to impose any further restrictions in England over the Christmas period bolstered hopes the UK will avoid significant economic disruption.

The outbreak of Omicron initially benefitted the euro as it helped to limit the pricing in of some of the policy divergence between the European Central Bank and its peers. However the introduction of increasingly strict measures by Eurozone countries seeking to contain surging Covid infections quickly unwound most of these gains.

The US dollar, meanwhile, drew support in early December as the uncertainty surrounding Omicron prompted skittish investors to favor the safe-haven currency. This support crumbled by the end of the month however, after real-world data studies in the UK and South Africa suggested those infected with Omicron are less likely to be hospitalised compared to previous strains.

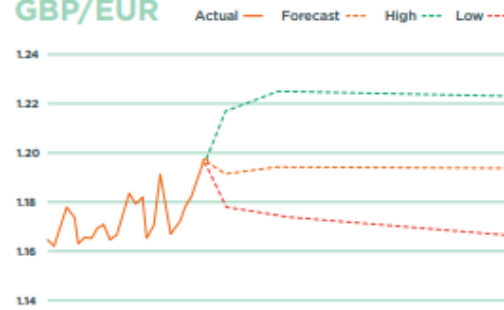
Our 12-month forecasts evaluate predictions from a range of individual providers, including a cross-section of major banks and leading financial institutions. These rates are intended to indicate the inter-bank rate and do not reflect the market rates that would typically be quoted when transacting with Currencies Direct.

### EUR/USD



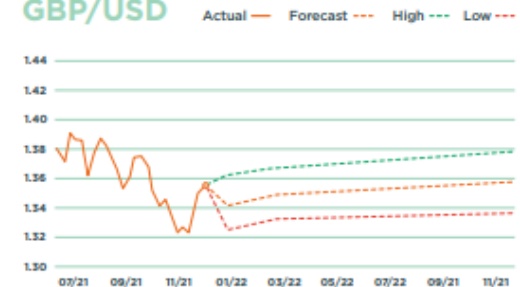
Spot 1.13 <sup>45</sup>	1 month	3 months	12 months
Variance High	1.14 <sup>10</sup>	1.15 <sup>40</sup>	1.16 <sup>55</sup>
Forecast	1.12 <sup>50</sup>	1.12 <sup>90</sup>	1.13 <sup>50</sup>
Variance Low	1.11 <sup>05</sup>	1.10 <sup>55</sup>	1.10 <sup>36</sup>

### GBP/EUR



Spot 1.19 <sup>75</sup>	1 month	3 months	12 months
Variance High	1.21 <sup>70</sup>	1.22 <sup>50</sup>	1.22 <sup>30</sup>
Forecast	1.19 <sup>25</sup>	1.19 <sup>55</sup>	1.19 <sup>40</sup>
Variance Low	1.17 <sup>90</sup>	1.17 <sup>52</sup>	1.16 <sup>70</sup>

### GBP/USD



Spot 1.35 <sup>65</sup>	1 month	3 months	12 months
Variance High	1.36 <sup>25</sup>	1.36 <sup>75</sup>	1.37 <sup>90</sup>
Forecast	1.34 <sup>20</sup>	1.34 <sup>90</sup>	1.35 <sup>80</sup>
Variance Low	1.32 <sup>50</sup>	1.33 <sup>20</sup>	1.33 <sup>60</sup>

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## The month ahead

Decrease ↓    Remain →    Increase ↑

### OMICRON

The highly infectious Omicron Covid variant continues to drive a sharp rise in infections around the world, but countries' differing approach to restrictions is acting as a key catalyst for currencies at the start of 2022. The pound is performing particularly well as Boris Johnson is hopeful England can 'ride out' the current wave of Covid infections without the need for further curbs.

The US also adopted a soft touch to restrictions, but with the country already recording over one million daily infections some are starting to question this approach.

Many countries in the Eurozone introduced stricter measures over the holiday period. Some of these have been lifted but those which remain in place will raise concerns over the trajectory of Eurozone economic growth at the start of the year.

IMPACT **GBP** ↑ → ↓

### CENTRAL BANK POLICY

As inflationary pressures continue to build across the globe, investors will be looking at what action the major central banks may take to combat this.

The Bank of England surprised markets by raising interest rates from a record low last month but there is already speculation the bank could hike them again at its next policy meeting in February. At the same time, USD investors are beginning to price in the possibility of the Federal Reserve hiking interest rates as soon as it finishes winding down its bond purchases in March.

On the other hand, the European Central Bank still maintains the current spike in inflation is 'transitory' and is expected to leave interest rates untouched through 2022. The policy divergence between the ECB and the other major central banks will not be lost on investors.

IMPACT **EUR** ↑ → ↓

### RISK APPETITE

With Omicron concerns fading fast, market risk appetite is expected to rebound at the start of 2022 amidst a broadly positive outlook for global growth.

As a result, safe-haven currencies such as the US dollar may continue to lose their lustre.

However ongoing concerns over supply chain constrains as well as the threat of heightened tensions between the West and Russia and China could still drag on risk appetite over the coming month.

IMPACT **USD** ↑ → ↓

## Key data - January

 12/1/22  
**US Inflation**  
GBP → EUR ↓ USD ↑

 14/1/22  
**German 2021 GDP**  
GBP → EUR ↓ USD →

 18/1/22  
**German ZEW Economic Sentiment**  
GBP → EUR ↓ USD →

 19/1/22  
**UK Inflation**  
GBP ↑ EUR → USD →



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