

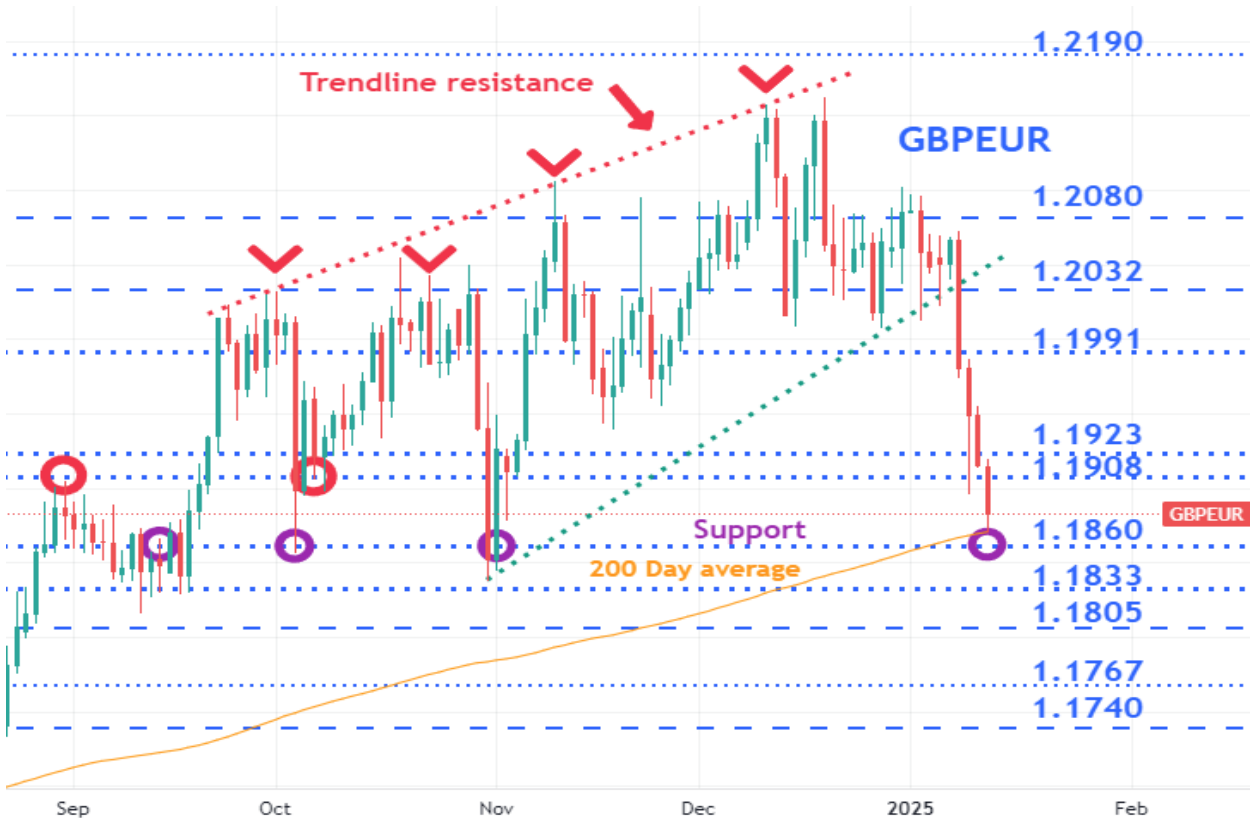


Weekly FX Majors Analysis

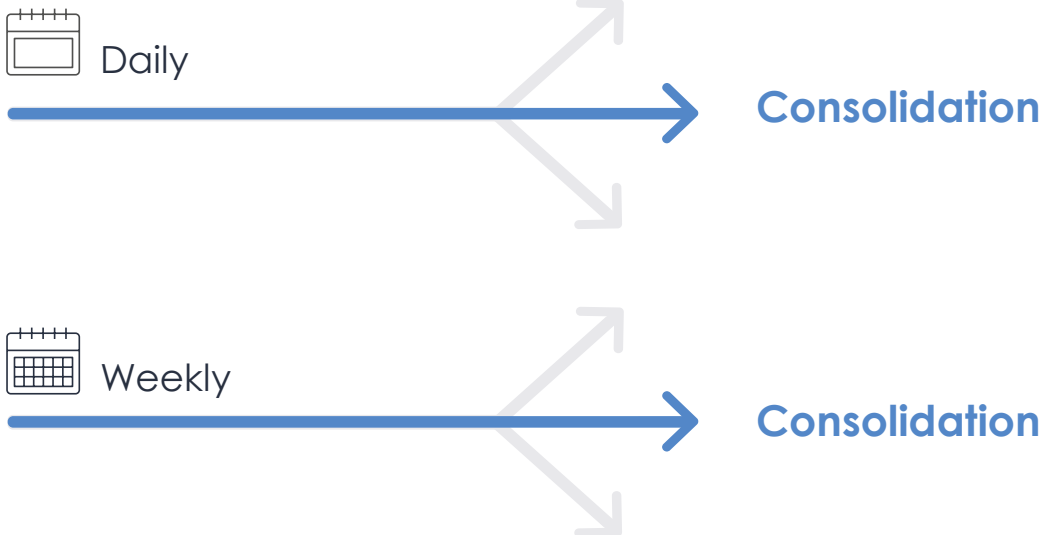
GBP/EUR

13 January 2025

GBP/EUR Daily Chart



Market Condition



Fundamental Analysis

Recent developments

GBP/EUR succumbed to the acute sterling weakness seen last week, fuelled by a 'mini-Truss' like crisis of confidence in Rachel Reeves. Rising gilt yields illustrated the rising premium market demand for UK debt, at the same time almost wiping out the £9B of fiscal headroom Reeves has left in order to stick to her plan of day-to-day costs being met by revenues, and ensuring debt is falling as a percentage of GDP over the long term.



'Reeves' Gilt-y conscience and the need for a plan B'

The acute issue seems to be that markets have lost confidence in Reeves' plan, and the gilt market volatility is reminiscent of the Truss episode. Associated sterling weakness is to be expected, as a low growth/sticky inflation mix is intertwined with a sense that the Reeves plan is killing business sentiment and can only be fueled by spending cuts and higher taxes. All of this is a negative driver of sentiment. Reeves continued with her trip to China, but upon her imminent return, gilt markets may be hungry for details of a 'Plan B'. In more extreme developments, she could be replaced. Key UK economic data this week from Wednesday's inflation, Thursday's GDP, and Friday's retail sales will be watched to see if they can offer some respite. Inflation may come in above 2.6%, but GDP is very likely to continue the poor run seen in recent months. As such, this data may do little to salvage sterling sentiment in the near term.

Euro faring better than sterling during bond yield rises

While bond yields are rising across the board, the reaction has not been as severe in German Bunds and French OATS. This indicates that markets are acutely focused on the stagflation muddle that the UK finds itself in and concerns over the workability of Reeves' plans. In most other areas, the euro is on a worse footing than the UK vis-à-vis growth, rate policy, political stability, etc., but for now, the bond markets are exposing the UK as the 'bad apple'. As and when bond market volatility reduces, it is reasonable to expect sterling will recover some of the recent losses against the euro given the wider fundamental backdrop. Technically, there has been a test and hold of 1.1860, but should this be breached to the downside, the downside risk to 1.1740 is real. Price action this week will largely depend on how sterling behaves, as there is very little fresh news to drive the euro aside from minutes from December's ECB meeting, which may provide some clues on recent, if outdated, ECB thinking on future rate policy.

Technical Analysis

The sterling-focused 'rout' has pulled price action down to test key support at 1.1860, which has been a key level since June 2024. The 200-day moving average sits there too, and this has prompted a bounce. For sure, if this is subsequently broken to the downside, 1.1767 and 1.1740 are the next key support levels. Any upside price action may struggle to make headway above the 1.1991 resistance area this week.



Upside

1.1908

The first upside resistance level.

1.1991

A more meaningful sterling bounce could reach these levels.

1.2080

Long-term upside resistance area remains in place for the foreseeable future.



Downside

1.1860

Massive multi-month support level which just held.

1.1767

The next meaningful technical support level on a further sell-off.

1.1667

If sterling capitulates, this could be a technical target from which a bounce is likely.

Looking Ahead

A look ahead to the key scheduled data releases for the week



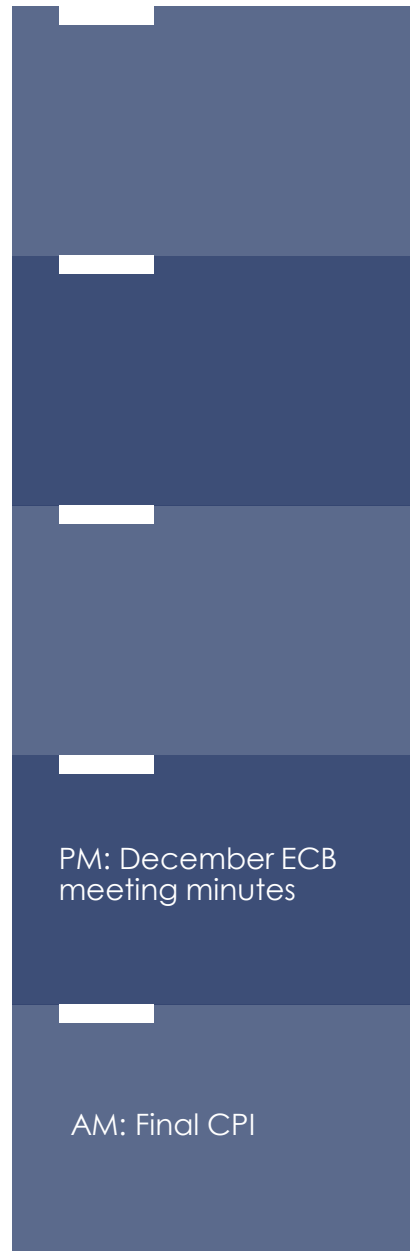
MONDAY

TUESDAY

WEDNESDAY

THURSDAY

FRIDAY



PM: December ECB meeting minutes

AM: Final CPI

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