DUKASCOPY
RESEARCH PRODUCTS

20/06/2017

Expert Commentary

Kallum Pickering, Senior UK Economist at Berenberg, on Brexit and Pound

"This month, the UK and the EU will begin divorce negotiations and there is some potential for early clashes.

Kallum Pickering
Senior UK Economist
Berenberg
United Kingdom

The UK economy performed stronger than expected in the first three months of the year, though the medium-term growth outlook remained weak amid possible barriers to migration and trade after Brexit. In your point of view, how Brexit may affect cross-border activities?

From the growth point of view, Brexit can affect the economy in two ways. In the near term, uncertainty from Brexit and rising inflation from the reduction in Sterling trade since the vote could cause a modest demand-side shock. But that effect has been much smaller than expected. In fact, the economy has outperformed the non-Brexit scenarios. Of course, we do not know how the economy would have performed had the UK not voted to leave. That seems to be an absence of the short-term demand-side shock. I am confident that the UK can continue to enjoy a broad-base expansion over the next couple of years. I see probably 2% real GDP growth this year followed by 1.7% next year.

In the very long run though, Brexit affects the supply side of the economy. Those are things that sustain long-term potential growth: investment and population growth. Brexit affects the UK, in this sense, in two major ways. Firstly, less migration from the EU and from non-EU countries will lead to slow rates of population growth. Secondly, less preferential terms of trade will half productivity effects through competition, which will lead to slower investment through three channels: disruptions in trade, disruptions in investment and less migration from its biggest market - the EU. I expect Brexit to reduce the rate of potential growth from 2.2% to 1.8%, though there is nothing about the absence of the short-term demand-side shock that tells us anything about the long-term supply-side shock.

Current political tensions greatly influence the Sterling performance. Do you expect the Sterling to remain weak or not? Why?

From here, the Sterling may weaken a little against the Greenback, but that is partly a Dollar strength story. This month, the UK and the EU will begin divorce negotiations and there is some potential for early clashes. Meanwhile, in the US the Federal Reserve will probably be hiking interest rates again, which favours a weaker GBP/USD exchange rate. However, that this year's story.

Kallum Pickering, Senior UK Economist at Berenberg, on Brexit and Pound

We might finally see that exchange rates would respect economic fundamentals more and care less about the political risks.

Next year, as Britain and the EU start to make progress on the Brexit negotiations and the UK economy continues to perform well, the Bank of England will start to think about raising interest rates. We might finally see that exchange rates would respect economic fundamentals more and care less about the political risks. While we may see the Sterling weaken against the Dollar for the remainder of 2017, as long as the UK and EU are making progress on Brexit, the Sterling could begin to strengthen again.

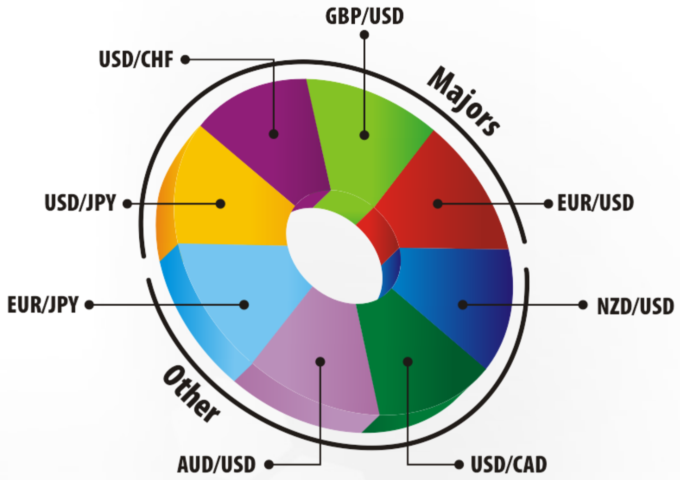
What is your forecasts for GBP/USD?

At the current moment, we expect the Cable to trade at 1.22 by the end of the year.

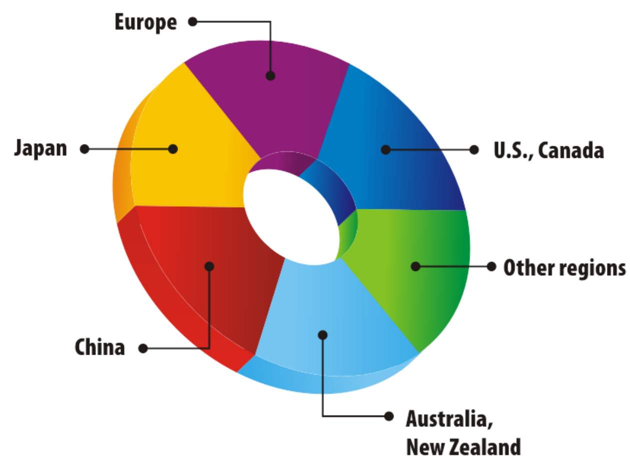
Kallum Pickering
Senior UK Economist
Berenberg
United Kingdom

Recent Expert Commentary on...

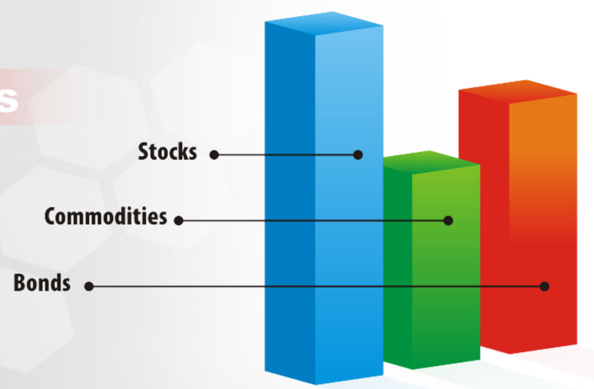
...FX Pairs



...Economics



...Other asset classes



Just click on a subject you are interested in and see what experts have to say

Newest releases and archive:

- Fundamental Analysis
- Technical Analysis
- Press Review
- Market Research
- Expert Commentary
- Dukascopy Sentiment Index
- Trade Pattern Ideas
- Global Stock Market Review
- Commodity Overview
- Economic Research
- Quarterly Report
- Aggregate Technical Indicator

Additional information:

- Dukascopy Group Home Page
- Market News & Research
- FXSpider
- Live Webinars
- Dukascopy TV
- Daily Pivot Point Levels
- Economic Calendar
- Daily Highs/Lows
- SWFX Sentiment Index
- Movers & Shakers FX
- Forex Calculators
- Currency Converter
- Currency Index
- CoT Charts

Social networks: