



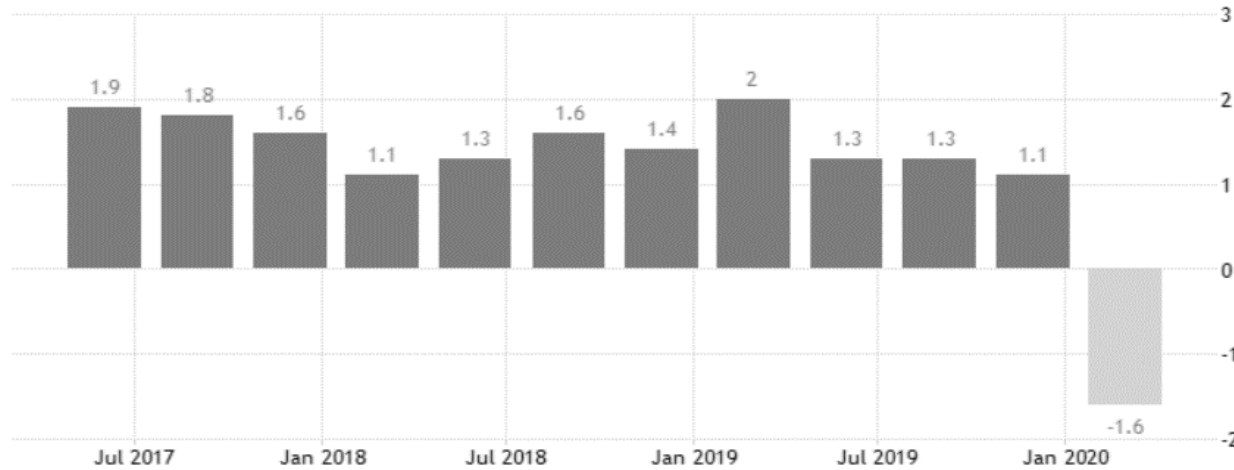
# UNITED KINGDOM ECONOMY

01.06.2020

# Growth

- When compared with the same quarter a year ago, UK GDP decreased by 1.6% in Quarter 1 2020; the biggest fall since Quarter 4 2009, when it also fell by 1.6%.
- This release captures the first direct effects of the coronavirus (COVID-19) pandemic, and the government measures taken to reduce transmission of the virus.
- There has been a widespread disruption to economic activity, as services output fell by a record 1.9% in Quarter 1; there were also significant contractions in production and construction. Household consumption fell by 1.7% in Quarter 1 2020, the largest contraction since Quarter 4 2008, alongside declines in gross fixed capital formation, government consumption and trade volumes.
- Bank of England projects worst UK economic slump since 1706. The Bank said it expects U.K. gross domestic product to fall by 14% over 2020 as a whole, driven by a 25% decline in the second quarter.

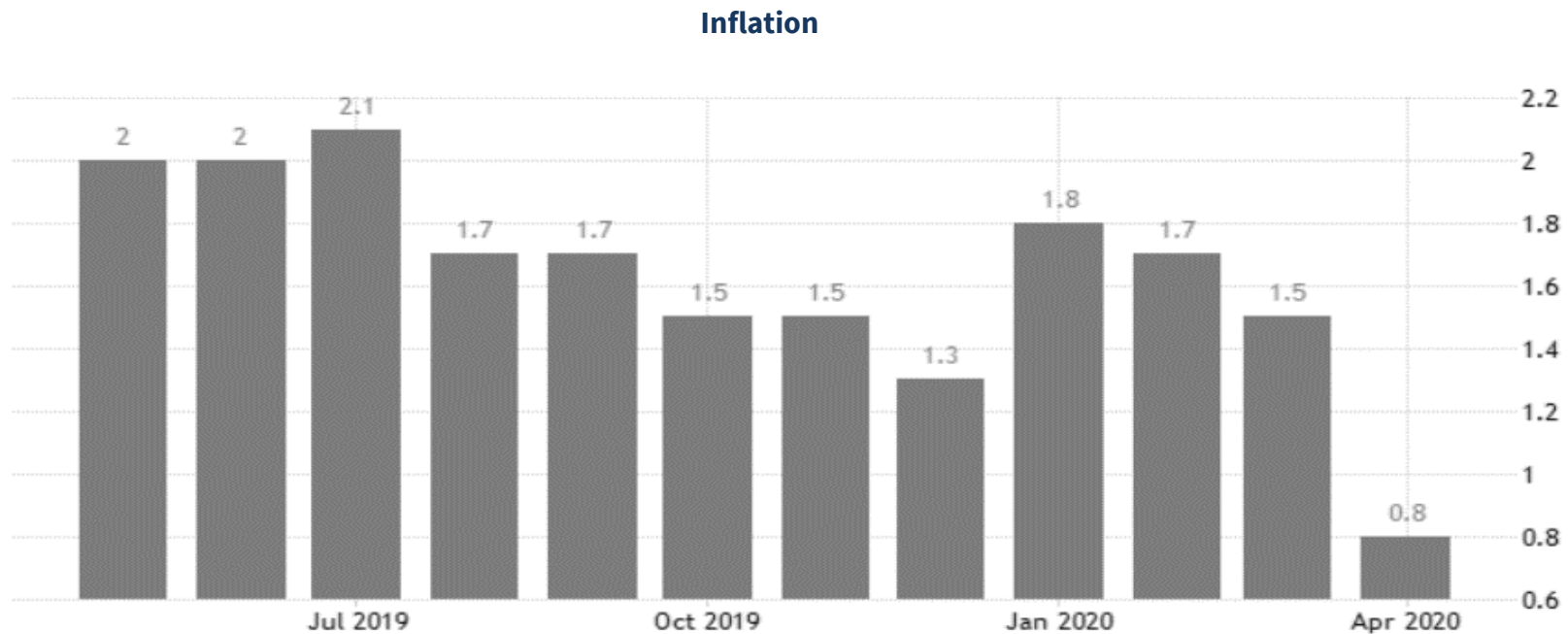
**GDP Annual Growth**



Source : TRADINGECONOMICS.COM

# Inflation

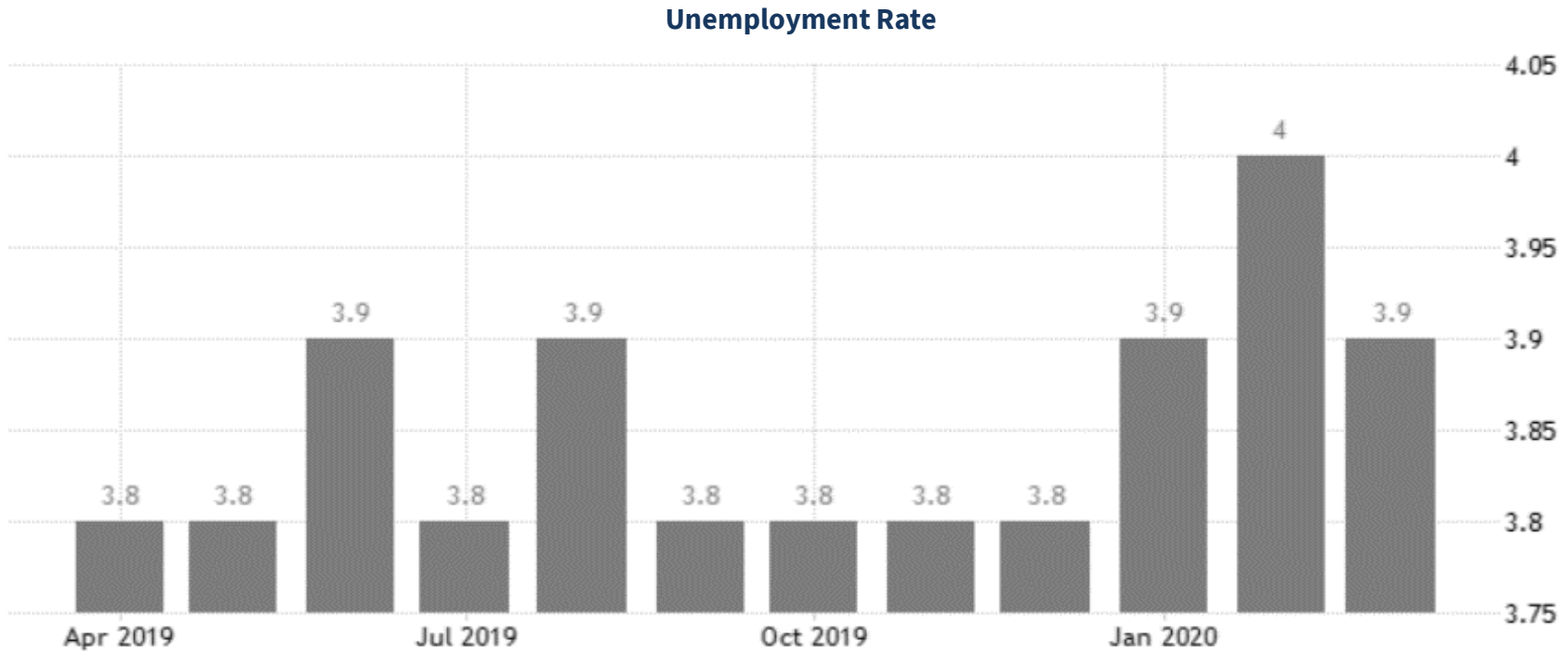
- Consumer price inflation slowed on an annual basis to 0.8 % in April from 1.5 % in March despite rising prices for games and hobbies,
- This is the first reading below 1 % since 2016 and the lowest value since August that year, when prices started to accelerate following the depreciation of sterling that made imports more expensive.
- This situation added to pressure on the Bank of England to cut interest rates.



Source : TRADINGECONOMICS.COM

# Unemployment Rate

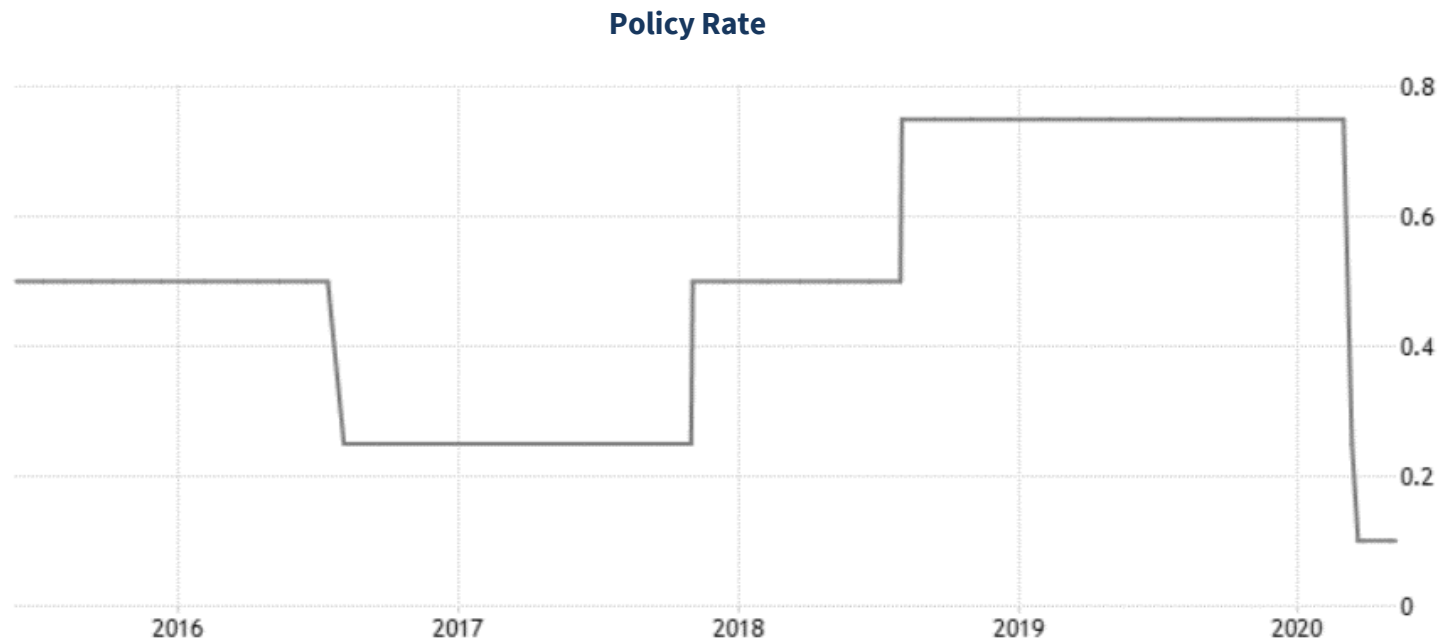
- The U.K.'s unemployment rate came in slightly higher at 3.9% in the January-March period, although that time period covered only one week of the lockdown (imposed in the U.K. from March 23). U.K. jobless claims rose by 856,500 to 2.097 million.
- There was also a risk of long-term unemployment problems if the BoE failed to provide enough stimulus. Britain's unemployment rate could hit 9% in the second quarter as the lockdown hammers firms across the economy,



Source : TRADINGECONOMICS.COM

# Policy Rate

- Interest rates from the Bank of England currently stand at 0.1 % in an unprecedented drop taken by the central bank as a result of the coronavirus crisis.
- The base rate of the Bank was slashed twice in March, firstly to 0.25 % and then to the 0.1 % at which it currently stands - the lowest in the bank's 325 year history.
- Policymakers also left the bond buying program at £645 billion, although two members voted for a £100 billion increase, in a further sign that fresh stimulus may be under way.



Source : TRADINGECONOMICS.COM

# BOE Interest Rate Forecasts

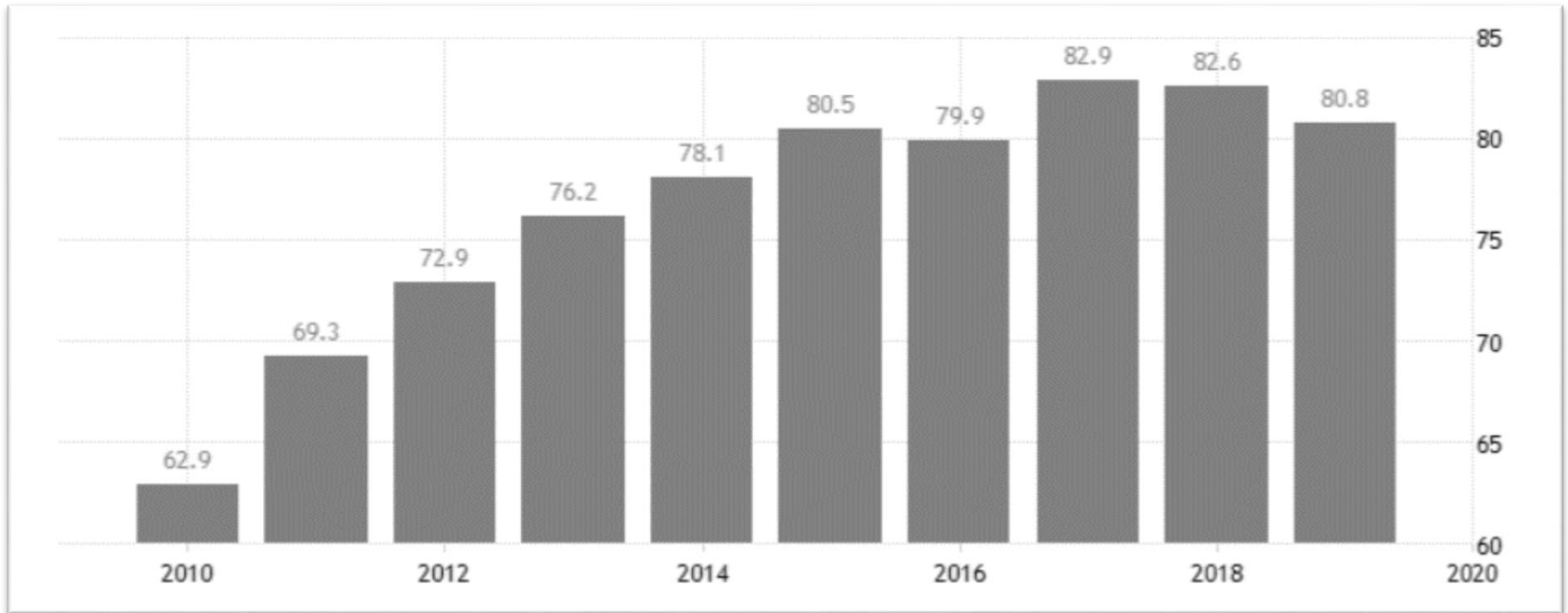
- Investors are pricing in the possibility the Bank of England will follow other central banks in cutting interest rates to below zero for the first time. But with the UK potentially facing its sharpest economic downturn in 300 years, officials are no longer ruling out negative rates.
- The speculation about Britain comes as the ECB and the BOJ have sought to reward banks that use their credit lines, recognising the need for incentives to boost lending rather than just punishing them for parking their money.

Region: United Kingdom »		Instrument: Overnight Index Swaps »				
Target Rate	0.100	Pricing Date	06/01/2020			
Effective Rate	0.06790	Cur. Imp. O/N Rate	0.068			
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.	
06/18/2020	-0.012	-1.2%	-0.003	0.065	0.250	
08/06/2020	-0.094	-8.2%	-0.023	0.045	0.250	
09/17/2020	-0.117	-2.4%	-0.029	0.039	0.250	
11/05/2020	-0.225	-10.8%	-0.056	0.012	0.250	
12/17/2020	-0.238	-1.2%	-0.059	0.009	0.250	
02/04/2021	-0.322	-8.5%	-0.081	-0.013	0.250	
03/18/2021	-0.332	-1.0%	-0.083	-0.015	0.250	
05/06/2021	-0.369	-3.7%	-0.092	-0.024	0.250	

Source : Bloomberg Terminal

# Public Sector Net Debt to GDP

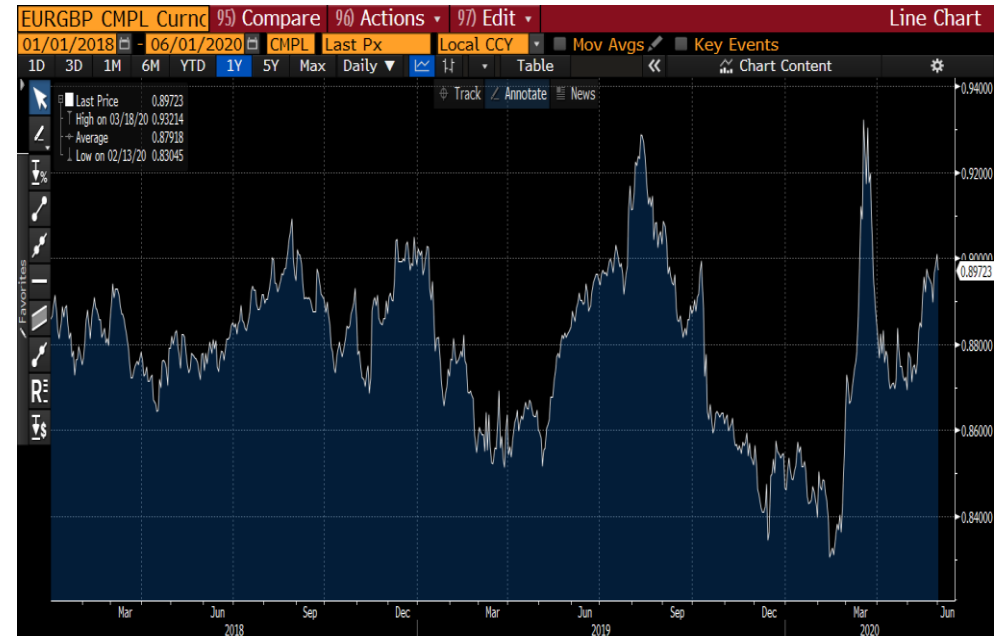
- The UK's public sector net debt was equivalent to 80.8% of the country's GDP in 2018-19 fiscal year.
- Government Debt to GDP in the United Kingdom averaged 44.18% from 1975 until 2019, reaching an all time high of 82.90% in 2017 and a record low of 21.70% in 1991.
- It is estimated that direct spending measures to deal with COVID-19, alongside the hit to growth, will push borrowing above 7% of GDP, taking debt-to-GDP north of 87%.



Source : TRADINGECONOMICS.COM

# GBP/USD & EUR/GBP

- ib In the GBPUSD parity, the Brexit process and trade wars have increased volatility in recent years. GBP / USD started 2020 at 1.32 levels, but the coronavirus regressed sharply after the demand for the safe port dollar. The GBPUSD declined below the 1.15 level as the BOE cut interest rate and the epidemic started the isolation practices in the British economy. Finally, the decrease in the demand for safe port after the decrease in the epidemic caused the GBP to appreciate.
- ib The EURGBP rate started 2020 at 0.8450 levels. With the spread of the coronavirus in Europe and the fear that it will affect the macro indicators of the European region, the parity fell to 0.83 levels. The parity, which rose to 0.93 in March after the depreciation of the pound, decreased to 0.89 levels after the depreciation of the EUR because of the problems in the European Union.



Source : Bloomberg Terminal



# GBP/TRY



- The GBPTRY rate had started the new year at 7.89 levels. The currency fell to 7.60 levels in the middle of January with the impact of the growth data of the UK economy being worse than expected and the deterioration in macro indicators. Due to the increase in the risks of developing countries with the effect of the epidemic, the parity increased to 8.81 levels at the beginning of April. GBP TRY, regarding Turkey's external financing positive news flow and the decrease in Turkey's risk premium fell to 8.45 levels.



Source : Bloomberg Terminal

# Disclaimer:

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