



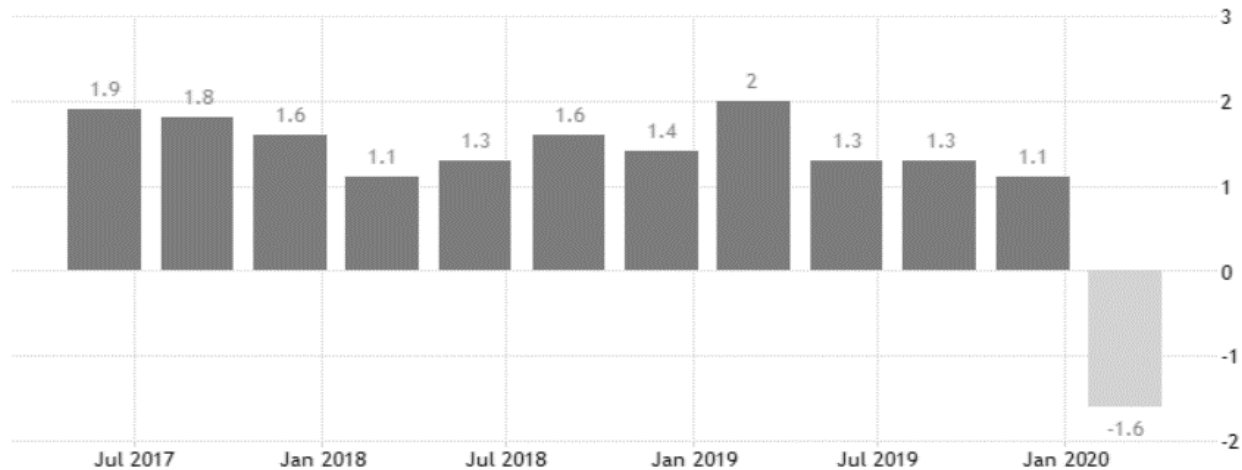
# UNITED KINGDOM ECONOMY

06.07.2020

# 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 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.
- The Bank of England projects the worst UK economic slump since 1706. The Bank said it expects UK gross domestic product to fall by 14% over 2020 as a whole, driven by a 25% decline in the second quarter.

**GDP Annual Growth**

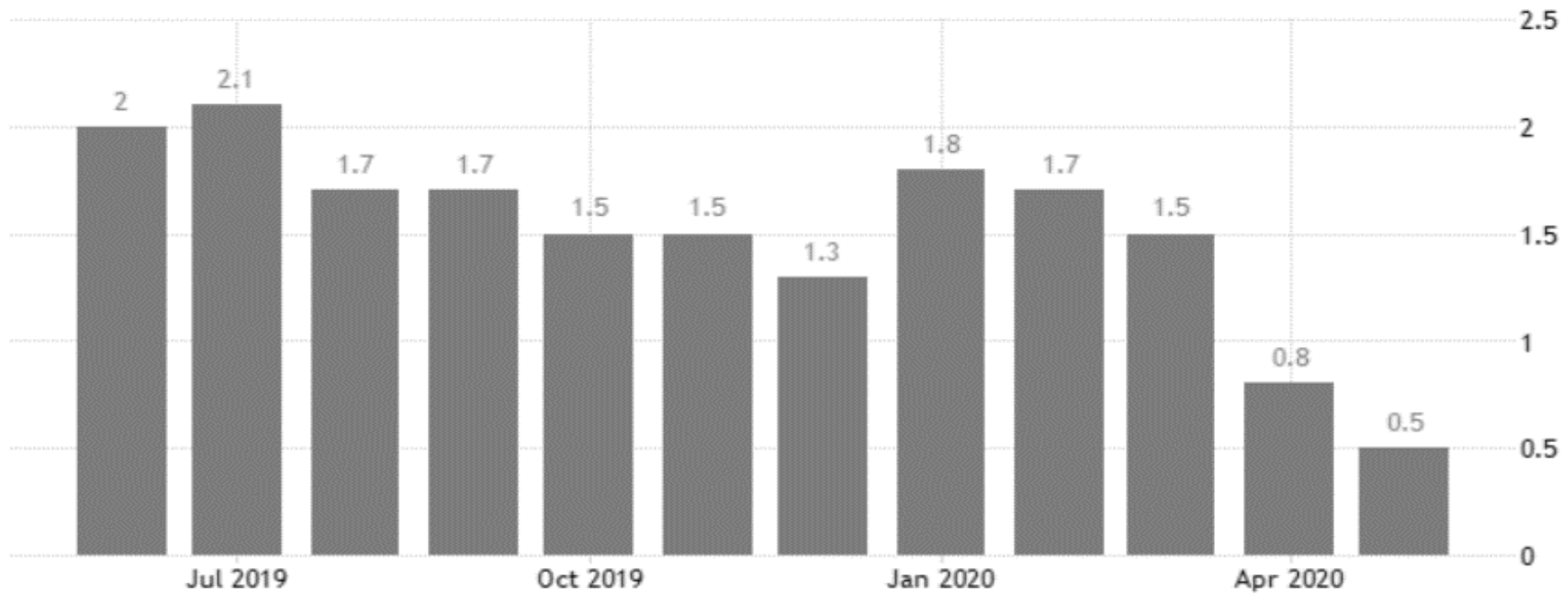


Source : TRADINGECONOMICS.COM

# Inflation

- tb A record fall in fuel prices, including petrol, pushed the UK's inflation rate down to 0.5% in May, the second full month of the coronavirus lockdown. Economists are anticipating further declines as the economy emerges slowly from months of lockdown.
- tb Falling prices for leisure activities, including computer games, put downward pressure on inflation, while rising prices for food and non-alcoholic drinks partially offset the drop.
- tb Inflation has remained under the Bank of England's 2% target since last August, but the rate has plummeted following the shutdown of much of the economy to control the spread of coronavirus, dropping from 1.5% in March to the current low.

**Inflation**

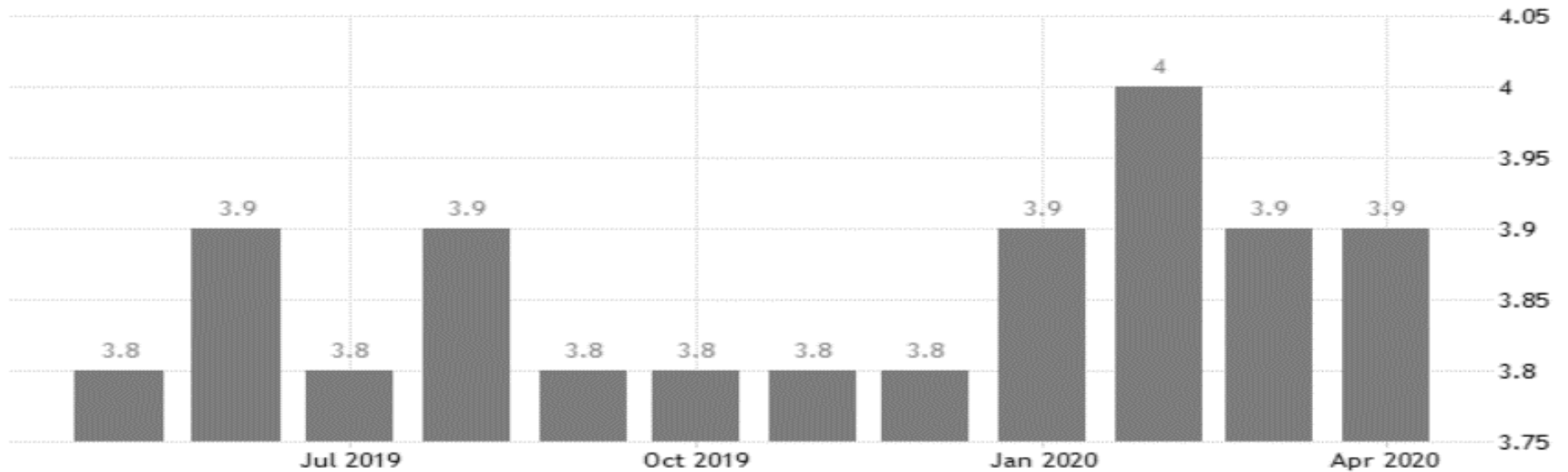


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# Unemployment Rate

- The unemployment rate remained unchanged at 3.9% between February and April.
- The UK unemployment rate unexpectedly remained unchanged in the three months to April, but workers on company payrolls fell 612,000 between March and May while job vacancies plunged to a record low.
- The jobless claimant count increased in May to 2.8m – a monthly increase of 23.3% . Since March 2020, when lockdown began, UK jobless claims have increased 125.9% or 1.6m.

Unemployment Rate

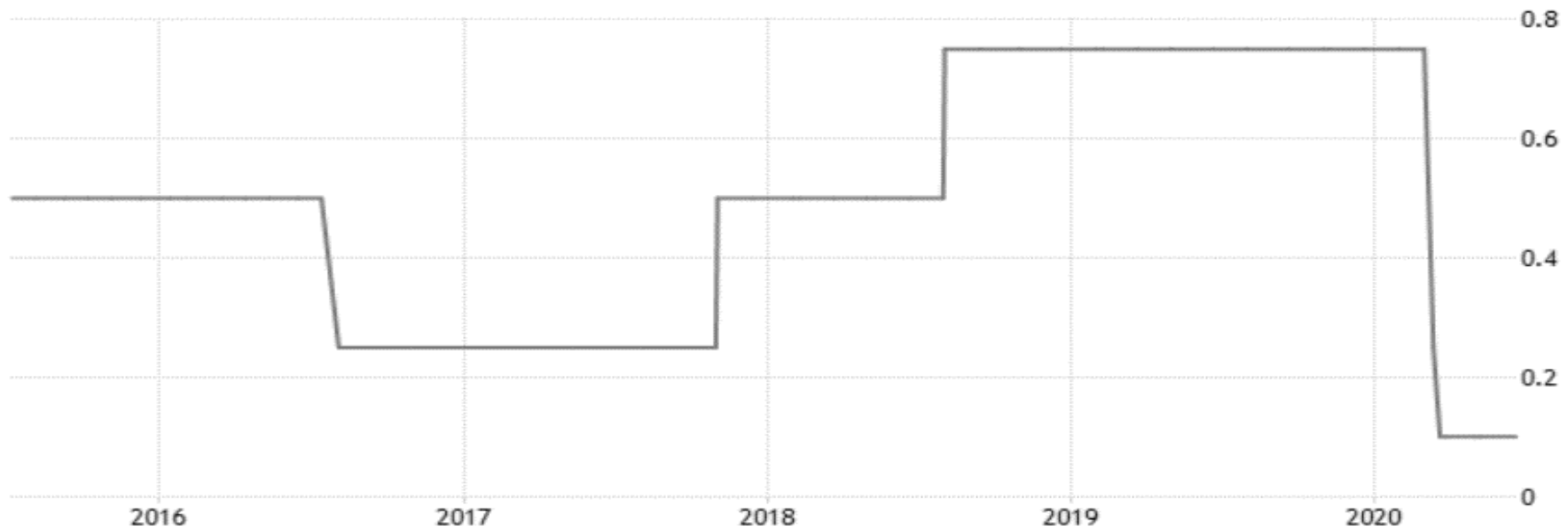


Source : TRADINGECONOMICS.COM

# Policy Rate

- The Bank of England has kept interest rates at 0.1% and pumped an extra £100bn into the economy in a bid to help the UK out of what is expected to be one of its deepest ever recessions.
- It takes the bank's total quantitative easing programme – effectively printing new money to buy government debt – to £745bn.
- In order to prevent the loss of the financial sector, the ECB decided to continue purchasing assets and the BOE also decided to increase the monetary support by keeping the interest rate constant.

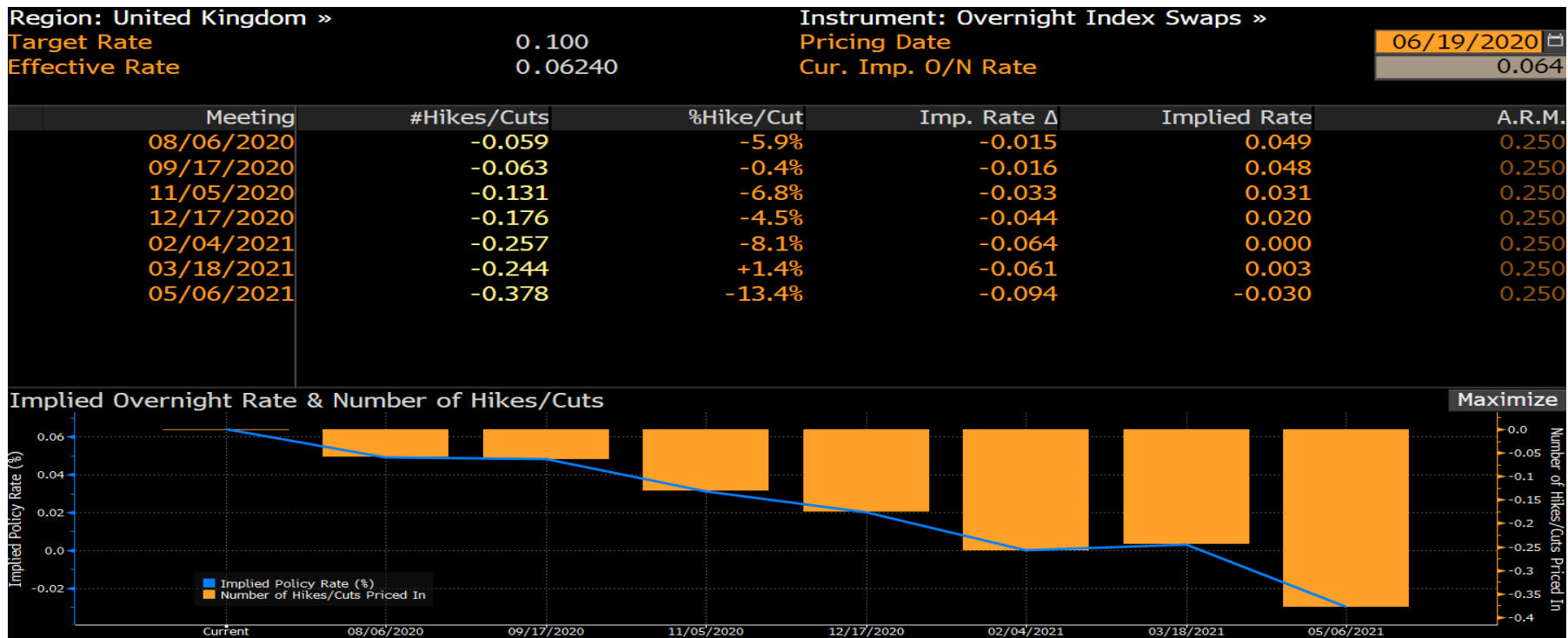
Policy Rate



Source : TRADINGECONOMICS.COM

# BOE Interest Rate Forecasts

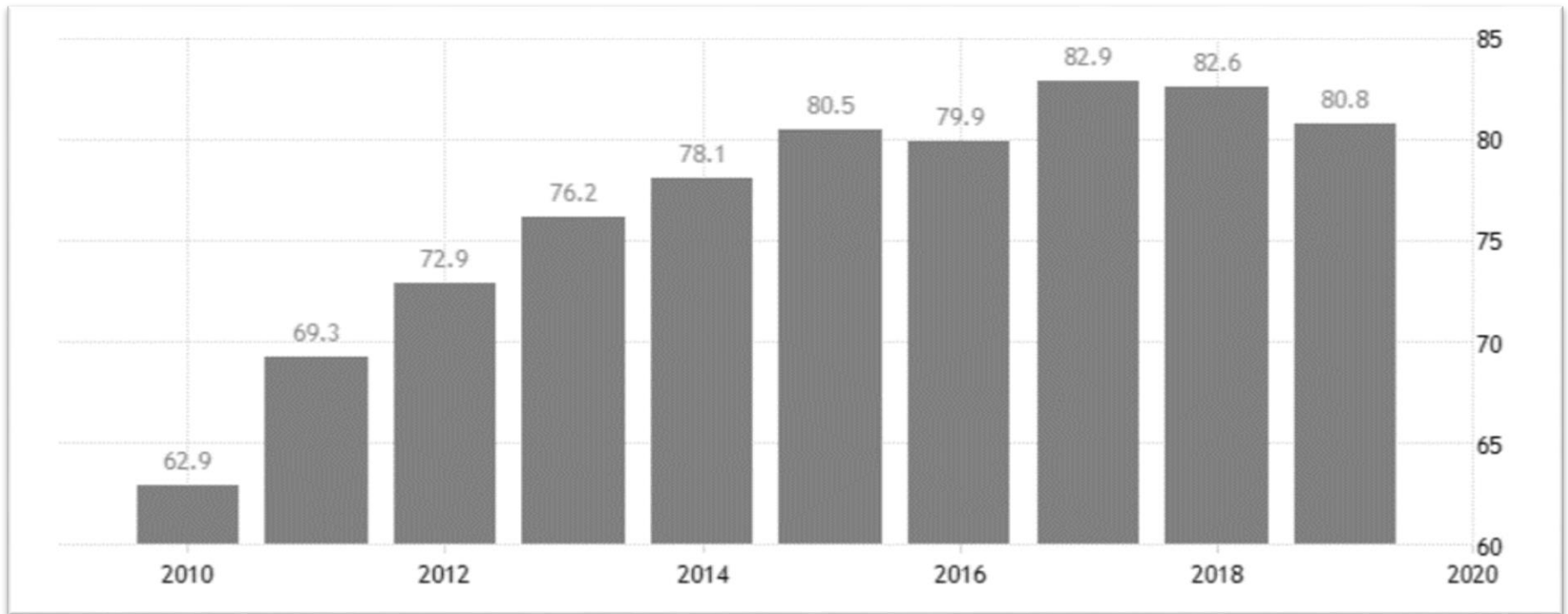
- Investors are pricing in the possibility that the Bank of England will follow other central banks in cutting interest rates to below zero for the first time. But with the UK potentially facing its sharpest economic downturn in 300 years, officials are no longer ruling out negative rates.
- The BOE kept interest rates stable at the last meeting but markets will be watching for the bank's statement on negative interest rates in the coming days



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 GBP/USD parity, the Brexit process and trade wars have increased volatility in recent years. GBP/USD started 2020 at 1.32 levels, but due to the coronavirus, regressed sharply after the demand for the safe port dollar. The GBP/USD declined below the 1.15 level as the BOE cut interest rates and the epidemic started isolation practices in the British economy. The pound, which strengthened against the dollar with the reopening of economies, lost some value after the second wave expectation in the pandemic and is traded at 1.24-1.25 levels.
- ib The EUR/GBP 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 0.90 levels after the depreciation of the EUR because of the problems in the European Union.



Source : Bloomberg Terminal



# GBP/TRY



- The GBP/TRY 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. With Turkey's external financing positive news flow and the decrease in Turkey's risk premium, the GBP/TRY fell to 8.45 levels. Finally, the second wave anxiety that could be seen in the pandemic caused the currency to rise to the level of 8.58.



Source : Bloomberg Terminal

# Disclaimer:

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