

Forecast

Day	Flat
Week	Flat
Month	Flat
1 Year +	Up

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US Producer Price Index Will Drive Today's GBPUSD Movement

- Yesterday, UK data suggested that industrial production slowed down much faster than expected (Chart 1, purple line.)
- In addition, we saw service sector and gross domestic product are also in an unfavorable growth path than expected.
- What is more, the UK's foreign trade deficit increased more than expected (Chart 1, Blue line).
- Looking at yesterday's US CPI data, I can estimate that today's US producer prices won't be USD negative. Please see Chart 1, Yellow line.
- In light of previous data, there is no doubt that BOE will continue with this policy after last month's rate cut. Since the Fed will follow BOE's policy GBPUSD should see no effect from monetary policy differences.
- With this respect, I suggest that we should look at the difference between the financial condition indices of the UK and the US - shown with the blue line in Chart 2. The chart shows that the differential has increased in favor of GBP since late 2022, but has recently declined.
- The second thing that can give us hints about where the GBPUSD will trend is the net long positions of the funds trading the GBP at CME - displayed in Chart 2, with the green line.
- The chart shows that net long Sterling positions of the funds have grown to its highest in decades. However, the fact that the UK economy is cooling very fast and that we haven't seen enough from the US side suggesting the same, I see no reason why some funds may liquidate some of their long Sterling positions in the coming weeks.

Conclusion: If the producer price index to be announced from the USA today is announced above expectations, the GBPUSD pair may decline. Otherwise, since Sterling's long positions do not have much room to go any further, GBPUSD may remain around the same levels as yesterday's.

Chart #1

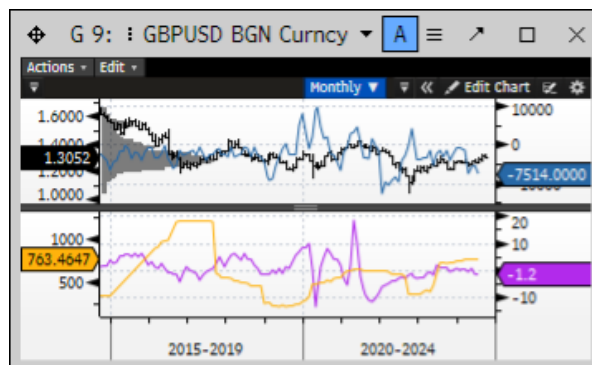


Chart #2

