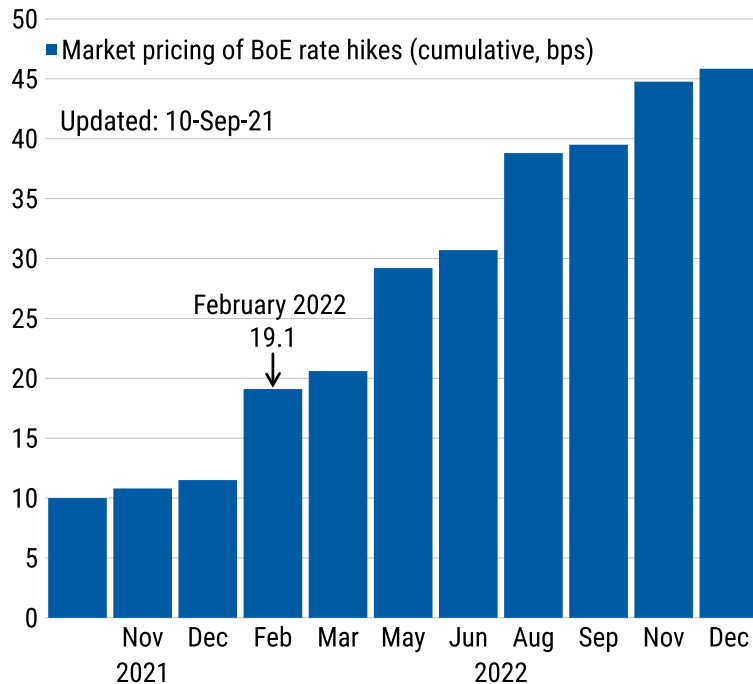


# British Pound (GBP)

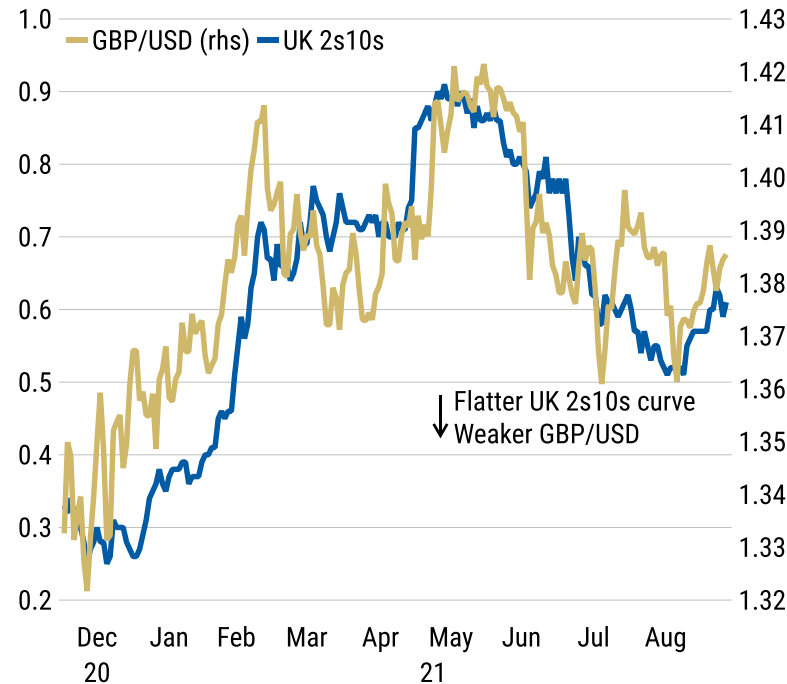
## GBP | Boosted by a Hawkish BoE

GBP should outperform on the crosses versus currencies like SEK as the BoE remains hawkish, with the focus being on the evolution of the labour market into the autumn

Markets are now expecting the first 15bp rate hike by the BoE in February



A steepening of the UK Gilts curve should help support GBP

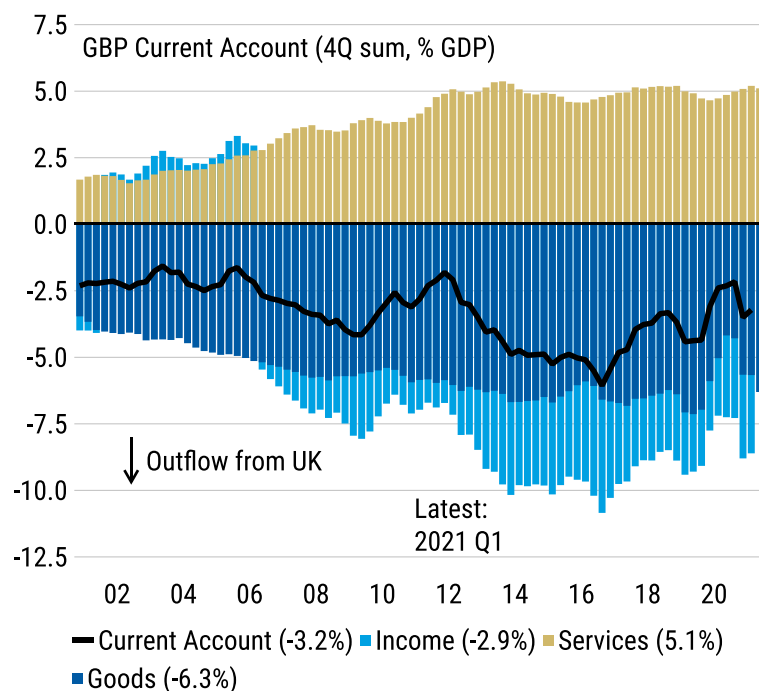


Source: MS STIRT Desk, Bloomberg, Macrobond, Morgan Stanley Research

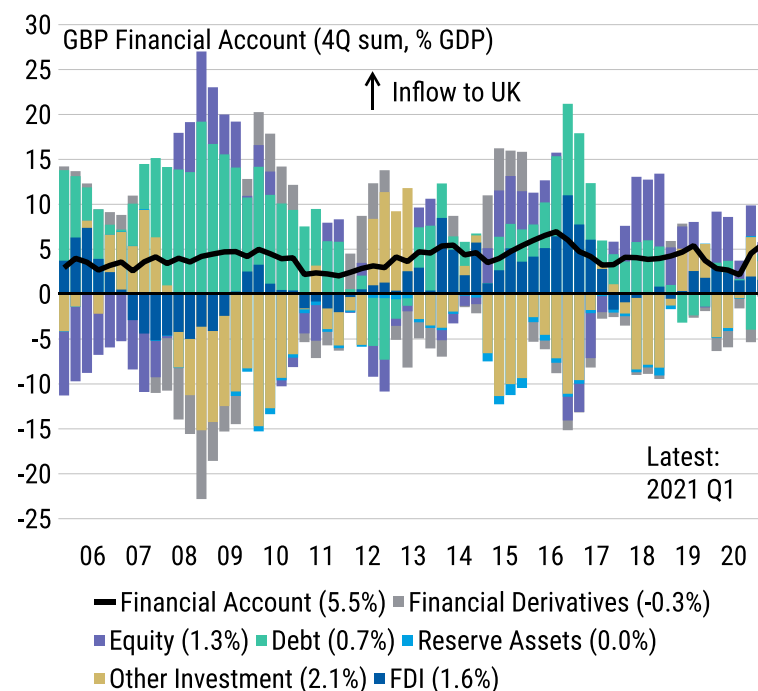
## GBP | Current and Financial Accounts

The UK is running (alongside the US) the widest current account deficit in the G10 at 3.2% of GDP (4Q sum) and our economists see further widening ahead

### Current account breakdown



### Financial account breakdown

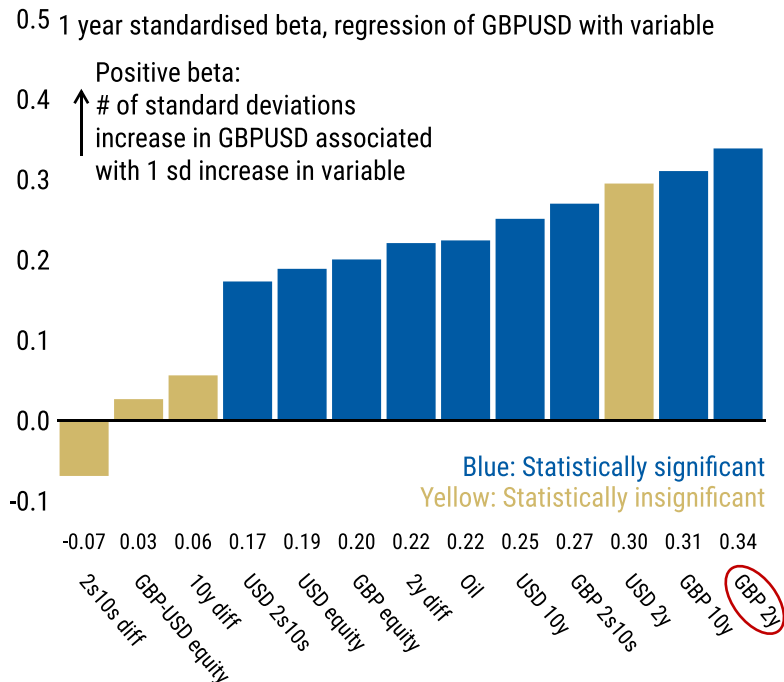


Source: Macrobond, Morgan Stanley Research

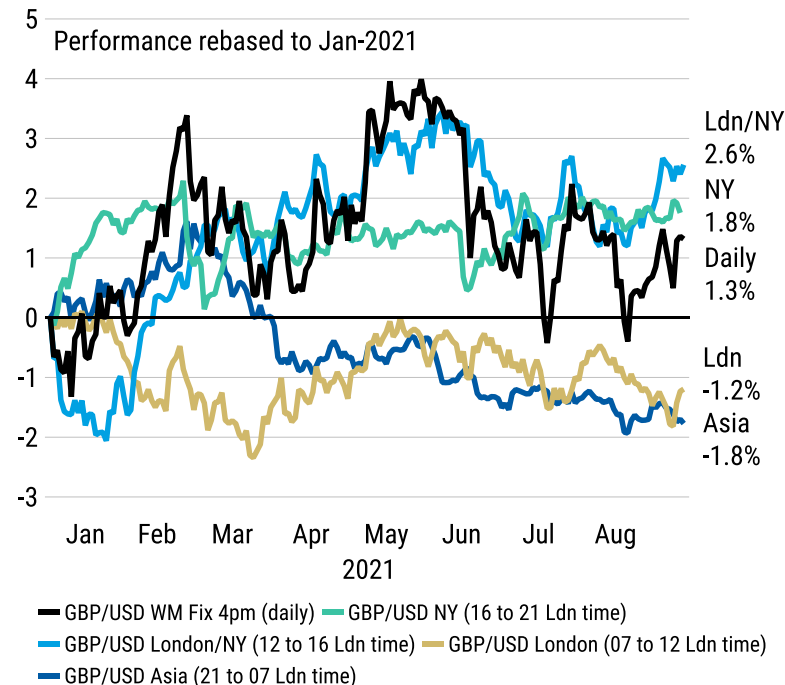
## GBP | Betas and Time Zone Performance

**GBP remains most sensitive to the UK bond market and steepness of the curve. GBP/USD has tended to weaken in the London and Asia sessions this year**

### Sensitivity of GBP/USD to different market variables



### GBP/USD performance across time zones

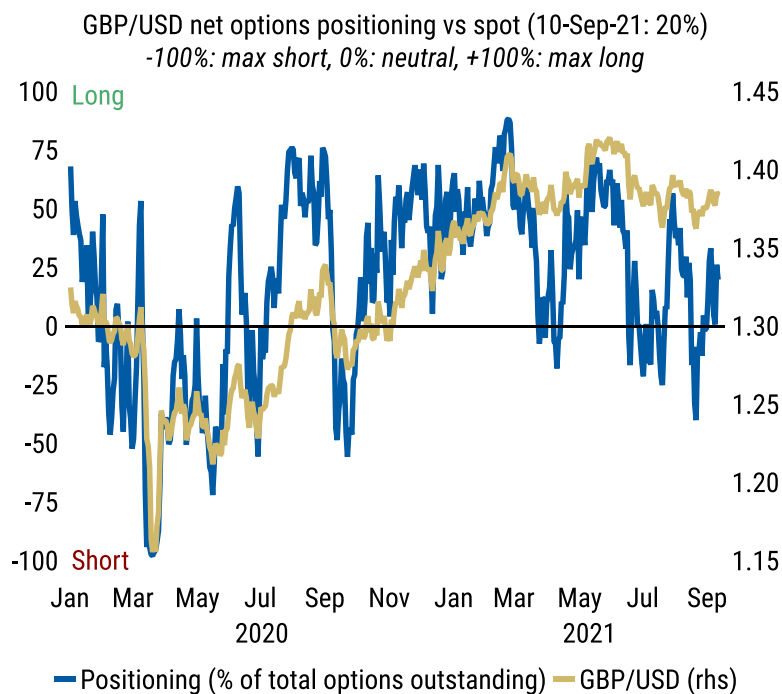


Source: Macrobond, Bloomberg, Morgan Stanley Research

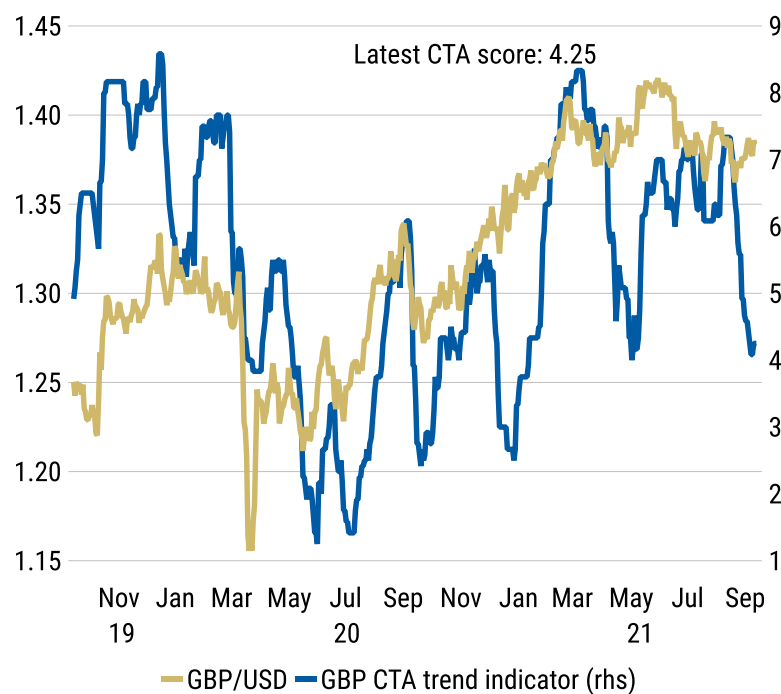
## GBP | Market Positioning and Sentiment

GBP positioning is neutral in the options, while the futures market is small short. Our CTA trend indicator has been turning less bullish GBP

### Options positioning



### CTA trend indicator

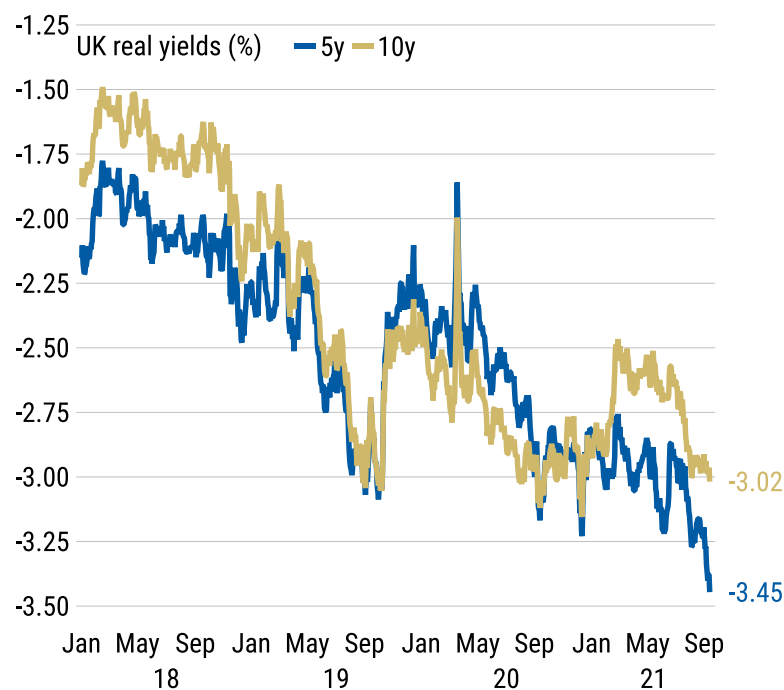


Source: DTCC, Macrobond, Bloomberg, Morgan Stanley Research

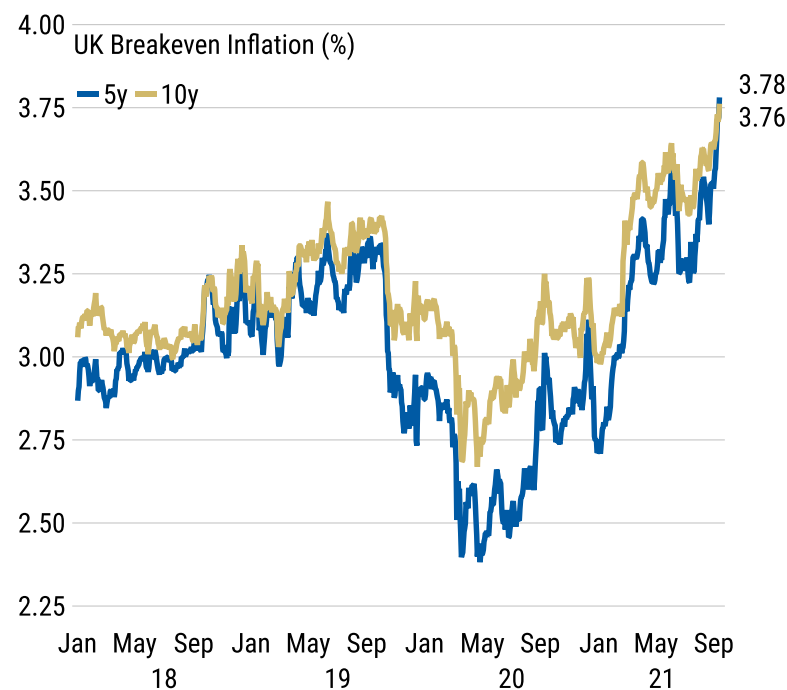
## GBP | Rates Market Backdrop

Real rates in the UK have continued to fall, as rising nominal yields were outweighed by the widening seen in breakevens

### Real yields



### Breakeven inflation rates

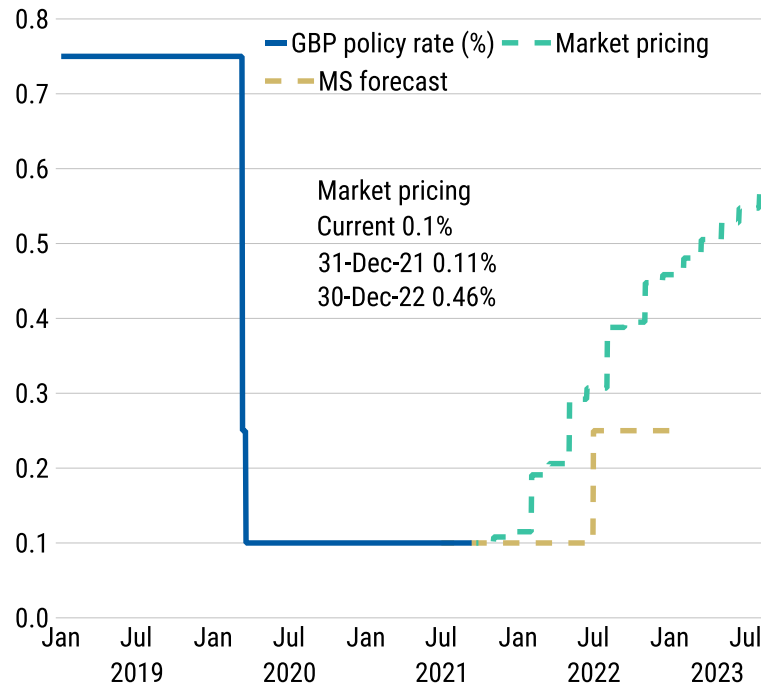


Source: Macrobond, Bloomberg, Morgan Stanley Research

## GBP | Monetary Policy

**Our economists' more bearish labour market and growth outlook - and the recent tax hike announcement - means they continue to expect the first 15bp hike in Aug-22**

### Policy rate



### Months to first rate hike

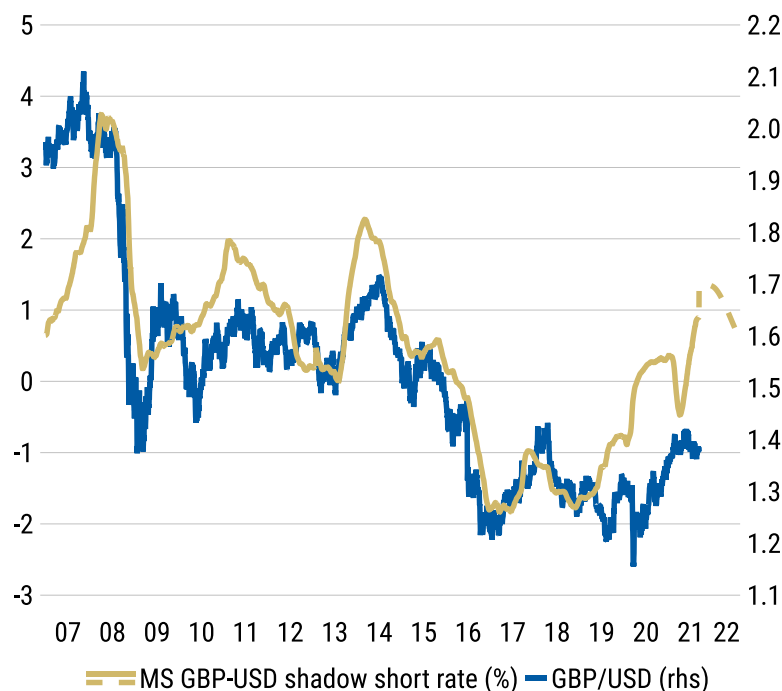


Source: MS STIRT Desk, Macrobond, Bloomberg, Morgan Stanley Research forecasts

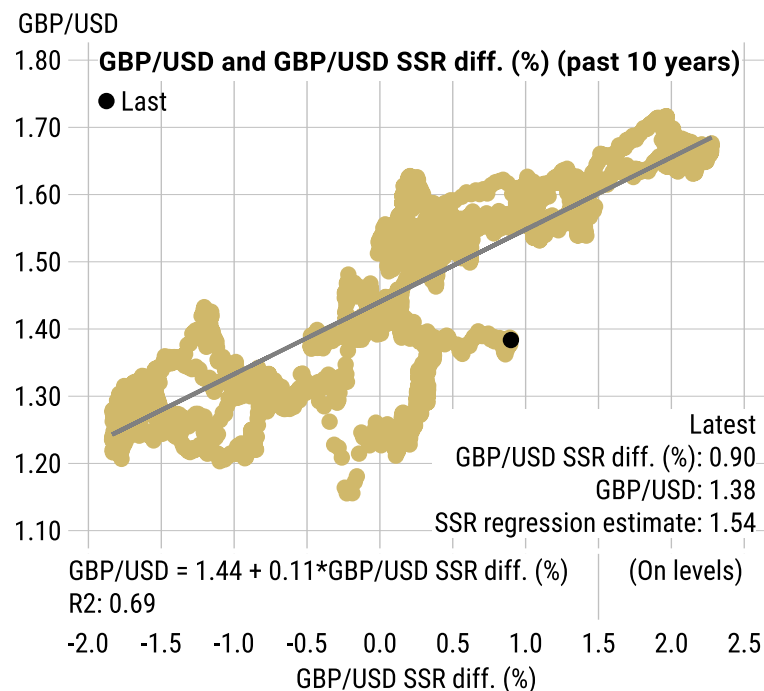
## GBP | Shadow Short Rate

GBP/USD has generally tracked the UK versus US shadow short rate over the years. GBP/USD should be trading above 1.50 based on that metric

### SSR differential vs. spot history



### SSR differential vs. spot regression



Source: Macrobond, Bloomberg, Morgan Stanley Research  
Note: Dashed lines represent Morgan Stanley Research forecasts