BUDGET 2017

ANALYSIS FOR FOREX TRADERS

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Founded in 2010, we now have global presence in over 90 countries, with main offices in the separately regulated markets of Australia, Cyprus, New Zealand and the United Kingdom.

We believe that sound investment and trading decisions begin with a strong grounding in financial education. Our goal is to make this available to everyone - and this free eBook is part of that commitment.

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LOOKING TO THE FUTURE

FOREWORD

On Wednesday 8th March the UK Budget for 2017 was unveiled. These statements outline the fiscal course Britain will follow for the next 12 months.

For Forex traders, the Budget is a useful indicator of how the UK economy intends to position itself. This can be useful in determining the long-term strength of the pound.

However, making sense of the Budget can sometimes be difficult. To help, we've created this eBook. It breaks down the major announcements from the Budget and explores how it could impact your trading.

Patrick Latchford
CEO, Blackwell Global Investments (UK) Limited

ONE: ECONOMIC GROWTH

BREXIT WOES?

One of the major focuses of any Budget is the projected growth figures for the next five years.

In light of Britain's decision to leave the European Union in 2016, particular significance has been placed on the impact that choice would have on economic growth. What's interesting is that yesterday's Budget, delivered by the UK's Chancellor of the Exchequer, revised growth upwards from 2016's Autumn Statement for 2017.

Here are the revisions:

- 2017: up to 2% from 1.4%
- 2018: down to 1.6% from 1.7%
- 2019: down to 1.7% from 2.1%
- 2020: down to 1.9% from 2.1%
- 2021/22: 2% as originally forecasted

However, we can see in the years 2018, 2019 and 2020 that growth forecasts have been revised downwards. This is largely dues to the uncertainty that will come to pass because of Brexit. While it's true that the British economy has proven more resilient than many had anticipated after the Brexit vote, there's still concern that the full effects have yet to be felt.

These forecasts are made by the Office of Budget Responsibility - a body that's independent of the British government.

Why does this matter to Forex traders? Growth forecasts are a great way to gauge the strength of an economy - and therefore its currency. These forecasts tell us that we can expect Brexit to drag on the rate of UK GDP growth and the price of the pound sterling.

TWO: BORROWING & DEBT

DEBT REMAINS AN ISSUE

The amount of money the UK government borrows each year has been something of a political hot potato since the global financial crisis of 2008. When you consider that the UK National Debt is currently estimated to be £1.64 trillion, it's no wonder that the issue takes on significance.

Since acquiring a majority in parliament in the 2015 General Election, the Conservative party has relaxed their original stance on reducing the budget deficit quickly. The catalyst for this again has been Brexit and the economic uncertainty is likely to cause. Before that election, the Conservative party promised that it would use a budget surplus by the end of the decade to pay down the national debt and lower taxes. This is now unlikely happen.

However, the Budget 2017 saw borrowing levels revised downwards from last year's Autumn Statement. Here are the latest UK borrowing forecasts:

- 2016/17: £51.7 billion (16.4 billion lower than forecast)
- 2017/18: £58.3 billion
- 2018/19: £21.4 billion
- 2019/20: £20.6 billion

What's more, Philip Hammond looks set to meet his fiscal target of running an annual rate of borrowing under 2% of GDP for the public sector.

Britain is gradually reducing its budget deficit, but not the extent that was predicted before 2015. Brexit further complicates matters. If economic growth suffers as a result of leaving the European Union and the European Single Market, we could see the UK government borrow more in the years ahead to spark growth.

This would reduce the chances of an interest rate hike. Meaning the pound sterling could face a period of downward pressure.


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THREE: INFLATIONARY PRESSURES

THE IMPACT OF A WEAKER POUND

One by-product of Brexit had been a weaker pound. After the referendum result, the pound reached decade lows against the US dollar.

Interestingly, this has helped UK exports - as a weaker pound has made British products cheaper to purchase for other countries. This has helped the UK economy remain resilient in the aftermath of the referendum vote.

However, it's also seen UK inflation rise. For example, the price of certain foods in the supermarkets have increased. Within the Budget 2017, inflationary forecasts were as follows:

- 2017/18: 2.4%
- 2018/19: 2.3%
- Subsequent years: 2%

The Bank of England's inflation target is 2%. Should we see a prolonged period where the rate of inflation stays above this target rate, we could see pressure build for an interest rate hike, which would act to strengthen the pound sterling.

Just keep in mind that this scenario could offset an already weakened pound, which has been the primary driver of inflation since Brexit.

FOUR:
WHAT ABOUT STERLING?

VOLATILITY LIES AHEAD

So what does all of this mean for the pound sterling? By looking at today's budget, we can certainly see that the UK government is preparing for a slowing of economic growth as Brexit unfolds.

How adequate these preparations remain to be seen, as the final details of Brexit are far from clear.

From a monetary policy point of view, the uncertainty of Brexit leaves the Bank of England in a difficult decision. Sluggish growth and a huge national debt are both convincing arguments against raising interest rates. However, if inflation remains above its target, we could see the central bank hike rates to prevent the price of domestic products and goods rising too quickly.

It's the classic central bank conundrum: effectively balancing strong economic growth and employment with a manageable rate of inflation. Our anticipation is that interest rates will hold steady for 2017. Interest rates could move in either direction depending on economic growth and inflation.

Traders can expect the pound sterling to face downward pressure in the coming years, particularly as Brexit negotiations play out.


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We can't pretend that is easy to become a successful trader. But we are here to help and support you as you make your trading journey, providing dedicated resources such as our demo trading accounts and regularly published research materials.

Founded in 2010, Blackwell Global was established to offer brokerage solutions for private and institutional clients. Blackwell Global is a Straight Through Processing or STP broker who provide their clients with superior liquidity and price feeds from top international banks. These are offered alongside 24-hour technical support, market research tools, educational materials, professional partnership programmes and fully integrated trading platforms.

We offer access to multiple asset classes including more than 60 currency pairs, precious metals and other contracts for differences. As a global broker, we are always striving to achieve excellence in our customer service, as well as developing innovative technology to support our customers needs.

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Or contact Customer Support:

Tel: +44 (0)203 695 0898
Email: cs@blackwellglobal.com