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It has been a year of ups and downs for sterling, mainly dominated by political and geopolitical factors. Investors' concern over the outcome of Brexit largely overshadowed the economic statistics, which were seen through the lens of uncertainty relating to the UK's pending departure of the EU.

Static GDP and wavering confidence

First quarter GDP growth was static at 0.5%, but in the summer the National Institute of Economic and Social Research (NIESR) estimated that growth had shrunk in the second quarter by 0.1%. Those numbers were reflected across the board, with consumer and business confidence measures, retail sales and the Distributive Trade and Industrial Trends surveys from the CBI showing a general downward trend that reflected concern over the ongoing uncertainty. The summer was particularly challenging, with the NIESR stating that there was "a one-in-four chance that the [UK] economy is already in technical recession," and the CBI Industrial Trends survey for July showing that optimism fell at the fastest pace since the immediate aftermath of the EU referendum. The numbers and confidence measures towards the end of the year indicated some improvement, but it may be some time before the economy shrugs off the impact of such a challenging year.

Investors shrug off PMIs

The Purchasing Managers' Indices (PMI) for manufacturing, construction and services all struggled to reach or maintain their position in the expansion zone. There was some impact on the pound when PMIs missed forecast, but generally the results were priced in ahead of time or ignored due to political developments. Manufacturing had a particularly dramatic year, touching a 13-month high in April due to pre-Brexit stockpiling, falling four points in May as the Brexit deadlines were moved, touching a seven-year low by September and picking up – even beating forecast - towards the end of the year.

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Bank of England adopts cautious approach

Throughout the year, the Bank of England (BoE) has been cautious and their decisions and statements were largely anticipated by investors. Interest rates remained unchanged at 0.75% throughout the year. A pessimistic statement from Monetary Policy Committee (MPC) Governor Mark Carney in the summer highlighted the BoE's "growing concerns over the global economic outlook." The tone had an impact on sterling at the time, but in general the MPC appeared to be responding with care and consideration to the evolving situation; rates were held in September despite a slowing of CPI inflation data from 2% to 1.7%. In November, as the country was set for more political change, the MPC voted 7-2 to keep the rate unchanged; after previous unanimous decisions, investors took this as a sign that change may be on the horizon for 2020, underscored by the committee's downgrading of the UK's economic outlook.

Sterling battles Brexit

The pound's major challenge this year was Brexit. Sterling began the first working day of 2019 an average of 0.8% above levels on Christmas Eve, but as Parliament returned from recess and the Brexit debate was renewed, the pressure returned to the pound. As the 29th March deadline approached, the pound struggled to tread water and the postponement of Brexit left investors uncertain where to turn. By May, the resignation of PM Theresa May was considered all but inevitable, but the pound still rallied once her own departure date of 7th June was announced. After a brief flurry, the pound faltered as the leadership contest added more uncertainty and investors priced in the increasing likelihood of a disorderly departure from the EU.

The pound was given a boost when Boris Johnson was appointed as the new leader and de factor Prime Minister. By the end of summer, the reality of Johnson's Brexiteer stance began to sink in and sterling faltered over the possibility that the new PM may choose to crash out of the EU without a deal. The PM's decision to suspend Parliament further clouded an already uncertain situation. Optimistic comments about the feasibility of Brexit from European Commission President Jean-Claude Juncker gave the pound a boost in September, and it was given further assistance when Britain's Supreme Court ruled that the prorogation was unlawful and returned Parliament to session. News of "detailed and constructive" talks between the Prime Minister and Irish Premier Leo Varadkar helped the pound climb an average of 2.7% higher against the other major currencies but the extraordinary weekend parliamentary session failed to yield results. The pound ran out of steam by November and the market braced for a General Election. After the election was announced, the pound lost ground to every currency, falling by an average of 0.7% against the other majors. Opinion polls indicated a majority for the Conservative Party, which gave the pound some assistance. This boosted sterling to a six-month high against the euro and broke through technical resistance against the US dollar at $1.30.

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What's ahead in 2020

Sterling leapt higher after the Conservatives delivered a significant majority in Parliament, suggesting that progress on Brexit and domestic policy will be possible after an extended period of stagnation. The pound hit a three-year high against the euro and almost a two-year high against the US dollar despite the market having already priced in a win for the Conservatives. The PM's first move was to push a bill which prevents further deadline extensions. This caused the pound to waver. In the coming year, the market will be watching political developments closely, particularly given Boris Johnson's sometimes idiosyncratic approach to leadership which may make developments difficult to predict. If the Brexit issue gets resolved, there may be a renewed focus on domestic economic performance and the actions of the Bank of England, as well as greater scrutiny of other significant influences to world trade and currency values including the US-China trade war.

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