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Weekly Brief

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GBP

Sterling finished on a high at the end of May, as we saw GBP/EUR touch a peak of 1.1780, representing the highest levels since August 2022. However, this still suggests a resistance level, as the pairing reached very similar levels last summer and could indicate it needs a significant market event to push past this psychological position. The pound was up against most other major currencies, including the dollar, which saw GBP/USD jump over 3 cents in three weeks up to just under 1.28.

One of the primary reasons behind the pound's improvement could lie in the Bank of England's changing stance on interest rates – generally considered the key market-moving factor so far this year. With the UK's headline inflation dropping to 2.3%, slightly higher than expected, it has pushed back the chances of an early interest rate cut from the Bank of England. In our May market update, we reported market predictions of over 50% in favour of a cut at June's MPC meeting. Expectations have now reduced to around 10%, with some forecasters believing August or September is when the base levels will be dropped from the current 5.25%.

Separately, UK politics continues with further pledges from both the Labour and Conservative parties in the lead-up to the 4th July election. In a round of political elbow-jostling last week, long-serving Labour member Diane Abbott has confirmed she will be standing as a Labour candidate following a row that overshadowed much of the campaigning last week.

The pound has a track record of underperforming in the lead-up to political events*, as we saw over the years with Brexit and other election events. This could mean we see the pound fall away from the recent highs. Either way, after relatively little volatility so far this year, more movement could be on the cards.

*The Sunak-Truss leadership contest saw a 1.5 cent drop for GBP/EUR in the lead up to the decision in September 2022.

EUR

The ECB is expected to cut interest rates for the first time since 2019 at its monetary policy meeting this Thursday 6th June. The main refinancing rate is expected to see a 25 bp cut to 4.25%, a move widely anticipated by the market because of the clear, ongoing narrative from EU policymakers that has helped stabilise expectations around interest rate changes.

From an interest rate and economics perspective, it is possible the EU and Canada could start a chain reaction as we witness the first interest rate cuts from the developed world. The UK, US, and Europe had previously followed similar monetary policy trends when both raising and holding rates. If these cuts are well received and avoid any economic scrutiny from markets around their decisions, it could open the door to rate reductions from many other countries.

To finish the week, Friday is expected to see stagnant EU Q1 GDP readings around 0.4%.

Currency headlines

GBP: Current market expectations for a Bank of England rate cut in June sit at around 10%

EUR: The ECB is expected to cut interest rates by 25bps on Thursday

USD: What will the impact of the Bank of Canada's rate statement be on USD

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Private Dealing

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