

# FX Viewpoint

Currencies  
Global

## GBP: Downside from labour market weakness

- ◆ We expect the Bank of England's Monetary Policy Committee to keep Bank Rate on hold at 4.25% on 19 June
- ◆ However, weak wage data and next week's inflation print may allow for an interest rate cut in August
- ◆ We see downside risk for GBP-USD ahead but broad USD weakness could limit the impact

On 19 June, the Bank of England (BoE) will announce its latest rate decision and publish its monetary policy minutes and statement: **HSBC economists expect the Committee to keep Bank Rate on hold at 4.25%**. The guidance was unchanged in May, and is likely to remain unchanged in June, namely that "monetary policy will need to continue to remain restrictive for sufficiently long until the risks to inflation returning sustainably to the 2% target in the medium term have dissipated further".

**We expect the BoE to hold rates at 4.25% on 19 June**

The bigger question is what happens at the next meeting, on 7 August. Although the Committee cut interest rates by 25bp in May, the meeting minutes suggested that they were **not far off voting for a hold**: two members voted for this, with three more saying they might have done so were it not for the global trade situation.

Arguments in favour of a hold are that financial volatility has receded, the UK has struck three recent trade agreements (with the US, the EU, and India) and 1Q GDP was decent, at 0.7% q-o-q. On top of that, and perhaps more importantly, **the April inflation number surprised on the upside**. The headline print of 3.5% was 0.1ppt above the BoE's forecast, while the services print of 5.4% was 0.4ppts higher.

**April's upside inflation surprise supports holding rates steady**

However, April's labour market report, closely watched by the BoE for signs of domestic inflation, showed **private sector wages slowing** to 5.1% y-o-y in April (vs consensus of 5.3% and from 5.5% in March), the slowest pace since February 2022. The unemployment rate also ticked higher to 4.6%, from 4.5%. Meanwhile, April's GDP fell 0.3% m-o-m, more than consensus of -0.1% and down from 0.2% previously.

**But weak jobs data and GDP could mean more easing ahead**

Before voting next week, the Committee will see May's inflation print. We think the data is unlikely to sway June's decision to keep rates on hold, but it may set the tone for a close call in August. Our base case is that the **wage data and next week's inflation print will allow for an August cut**, but like the rest of the market, we will be watching keenly for clues in the language next week.

**Our base case is for a rate cut in August**

Given our forecast for the BoE to cut interest rates to a terminal level of 3.0% by 2Q26, compared to 3.51% priced by the market, we think further job market weakness in the coming months could lead the market to price in more cuts. If this happens, **GBP would likely struggle vs both USD and EUR**. However, given that trust issues and the de-dollarisation theme continue to undermine the USD, **downside GBP-USD moves may prove somewhat more limited**.

**We see downside for GBP but this may prove limited**

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