



GBP/USD

Weekly FX Report

Fundamental Analysis

Recent developments

We have, for several weeks, highlighted downside risk factors posed by domestic political developments. GBP/USD moved meaningfully to the downside last week, gathering pace when Andy Burnham's nascent challenge emerged. Burnham is seen as by far the biggest risk factor to Gilt and FX markets. Concurrent dollar strength, driven by hotter inflation data and rising odds of a late '26 rate hike served to augment the downside move. Leadership developments alongside a plethora of UK data – unemployment/Inflation (CPI) and PMI ensures a busy week for the pound.



'Sterling is rapidly pricing in political risk premium'

Fiscal discipline has been at the core of the Starmer/Reeves approach. Markets are highly sensitive to how this could change; a Streeter premiership would probably be the most benign for Gilt/FX markets (retain fiscal responsibility *and* Reeves), whilst at the other end of the spectrum, Burnham is the volatility catalyst, as seen at the end of last week. This is in part due to previous comments that the Government should not be "in hock with bond markets". Note to readers; look out for a more in-depth piece coming soon, expanding on political developments and the impact on sterling.

Dollar gains as inflation data drives increased probability of Q4 rate hike

Recent developments have provided fertile ground for some solid, if unspectacular, dollar strength. Core inflation data (+0.4% m/m versus expectations for +0.3%) and PPI (ex food & energy) hit its highest level since early 2023, alongside stronger retail sales data. Rates markets shifted to 15 basis points of hikes for 2026, up from just 1 bp a week ago. This more hawkish shift occurs as the new Fed chairman – Kevin Warsh – is set to start soon and chair his first meeting in mid-June. With hotter US inflation, and the ongoing US/Iran conflict keeping Oil prices well above \$100, it is unlikely Warsh will be able to be as dovish as markets had expected. This is all dollar supportive. US equity indices are showing signs of a healthy retracement, which should also act as a tailwind for the dollar. US and UK PMI data is one to watch on Thursday, with UK inflation expected to remain well above the BoE target at >3% on Wednesday.

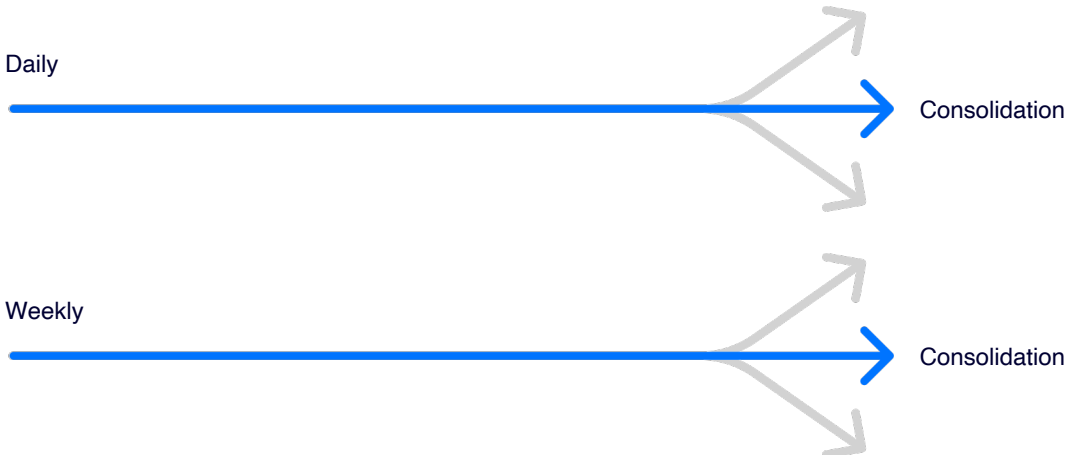
GBP/USD Daily Chart

IFX Payments created with TradingView.com, May 18, 2026 08:03 UTC+1



TradingView

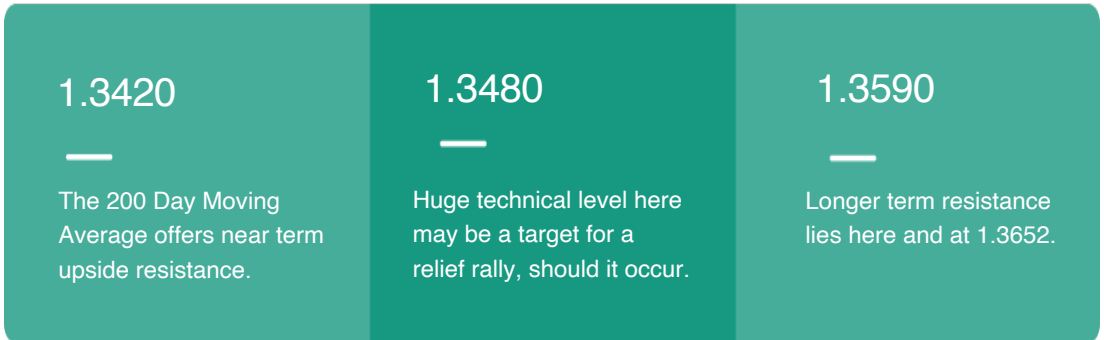
Market Condition



Technical Analysis

Last week we stated that, GBP/USD would need to break below 1.3480 (on negative political developments) to drive a more meaningful downside move. Price action has priced in a large degree of political uncertainty, but the bias remains to the downside and rallies are likely to be sold into. A test of 1.3266 looks probable. 1.3140 is a huge downside technical support from May and August 2025. A more meaningful rally is likely to find significant resistance at 1.3480.

Upside



Downside



Looking Ahead

A look ahead to the key scheduled data releases for the week

GBP

18 Monday	19 Tue AM: Claimant count change	20 Wed AM: CPI y/y	21 Thu AM: Manufacturing & services PMI	22 Fri AM: Retail sales
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USD

18 Monday	19 Tue PM: CPI (inflation)	20 Wed PM: FOMC meeting minutes	21 Thu PM: Manufacturing & services PMI	22 Fri
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