

The background of the page is a blue-tinted image of a financial chart displayed on a screen. The chart shows a candlestick pattern with a significant peak followed by a sharp decline. A smooth, white line representing a moving average or trend line is overlaid on the candlesticks. The grid lines of the chart are visible, and the overall aesthetic is modern and professional.

# GBP/EUR

Weekly FX Report

# Fundamental Analysis

## Recent developments

Both the ECB and BoE met last week, holding rates steady as expected, but strongly acknowledging upside inflation risks. In the UK, the 9 member MPC surprised markets by unanimously voting to hold rates, alongside a very hawkish statement presenting a willingness to raise rates to try to meet its 2% inflation target. The pricing in of up to three 0.25% hikes this year may be a big overreaction by the market. The ECB were already not expected to cut rates, thus the reaction to the BoE was the greater of the two.



**'UK economy is not well placed to accommodate rate hikes'**

We must be clear that the UK is not an economy that would welcome rate hikes. Economic growth is weak, and there is significant slack in the labour market. As such, sterling was unable to rally versus the euro, as such rate rises would be bearish for the economy, especially growth prospects. Sterling is also vulnerable to the worsening 'risk off' environment being seen in equity markets. For longer term thinkers, there is increased 'chatter' around the increased borrowing and spending ideologies of 'would-be' challengers to Starmer's position, such as Angela Rayner.

## ECB raise inflation outlook, but risks to growth remain

Unlike with the BoE and sterling, markets were not expectant of rate cuts from the ECB this year, so last weeks' hawkish ECB meeting was less of a shock. However, the ECB were unequivocally hawkish. ECB inflation projections were revised higher by 0.7% with headline inflation expected to reach 2.6% this year. Prolonged energy disruptions could see headline inflation rise above 4%. However, growth risks remain skewed to the downside. Market pricing of over 0.5% of rate hikes by July *may look like an over-reaction*, but we simply do not know the extent and duration of this energy shock. Should the market repricing look like an overreaction, we feel that the euro would be well placed to make solid gains versus sterling over the medium term. Tuesday's Manufacturing and services PMI is the key scheduled data to monitor, but as ever, Middle East developments remain the key driver of sentiment, positioning and price action this week.



## Technical Analysis

We stated last week that “price action has tested and failed at the 1.1606 level and our baseline assumption lies with a softer tone to market action towards the 1.15 area.” We saw once again last week that the upside technical level of 1.16/1.1620 remains robust. We should expect rallies to remain capped in the mid 1.15’s, and medium-term risks lie in a move down to 1.1465 contingent on fundamental developments.

### Upside

1.1564

—  
The first upside resistance above spot price action.

1.1606

—  
Resistance possible here as seen in February & last week.

1.1667

—  
A further explosive move could test this upside level.

### Downside

1.1534

—  
Light technical support expected here.

1.1465

—  
This level would be the target should the euro partially recover.

1.1422

—  
Support level tested if euro stages larger recovery.

# Looking Ahead

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

## EUR

<b>23</b> Monday	<b>24</b> Tue AM: Manufacturing & services PMI	<b>25</b> Wed AM: Lagarde speaks	<b>26</b> Thu	<b>27</b> Fri
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## GBP

<b>23</b> Monday	<b>24</b> Tue AM: Manufacturing & services PMI	<b>25</b> Wed AM: CPI (inflation)	<b>26</b> Thu	<b>27</b> Fri AM: Retail sales
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