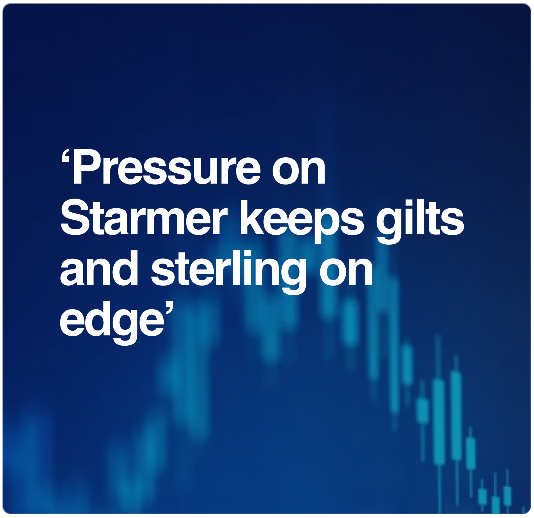
GBP/USD

Weekly FX Report

Fundamental Analysis

Recent developments

GBP/USD retraced sharply last week as political drama embroiled Starmer. The Bank of England (BoE) executed a ‘dovish’ rate hold. And the dollar re-established its footing after recent weakness. The Mandleson saga applied pressure to sterling, as the market weighs up the possibility of a leadership challenge, which could manifest in a change in economic policies/priorities and perhaps less fiscal responsibility. The BoE vote split was closer than expected, with 4 of the 9 MPC members voting for a rate cut, applying further pressure. Wednesday’s US Non-Farm payrolls (delayed from last week), and UK GDP on Thursday are data highlights this week.



The MPC acknowledged that the risk from greater “inflation persistence had continued to become less pronounced”. They also downgraded GDP growth and inflation forecasts (adding to the dovish tone). The reason for no cut at *this* meeting was that further evidence for how inflation would feed through into wages and prices was needed. Governor Bailey did not push back against the notion of a rate cut at the March meeting. This week, developments over Starmer’s premiership tenure will be a hot topic, whilst GDP data, forecast to show just 0.1% will be key to the economic growth narrative after a surprise beat last time around.

Inflation and jobs data lead busy week of US data

The large dollar short positioning that had amassed recently has been squeezed, meaning some buying momentum builds as some positions are covered. The dollar has generally found a more solid footing since the nomination of Warsh as Fed chair, and perhaps the dollar has benefitted from some inflows following a bout of recent ‘risk off’ moves in equity markets. Markets ascribe an 83% chance of the Fed holding rates at the March meeting, which may engineer some divergence between the Fed and the BoE, also contributing to recent GBP/USD pressure. The recent government shutdown served to delay the release of last weeks’ Non-Farm payrolls (NFP) and inflation data. After recent data has shown weakness in the US labour market, Wednesday’s NFP is expected to show 70k jobs added last month. A print below this could allow markets to lean towards more than two cuts this year and keep the dollar under pressure, and vice versa. Inflation is expected to fall slightly to 2.5% from 2.7%.

GBP/USD Daily Chart

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Market Condition

Technical Analysis

The retracement continued last week, with price action almost testing the key technical support level of 1.3480. The uptrend condition remains intact, as long as this pullback forms a higher momentum low than the low seen in January (at 1.3338). Trendline support is likely to offer support too, which lies just below the 1.35 figure. The constructive technical set up would be negated if price action closes below the January low of 1.3338.

Upside

1.3726	1.3788	1.3840
The September momentum high may cap any gains this week.	The 2025 highs are likely to act as a resistance level if tested once more.	This acted as major upside resistance recently.

Downside

1.3590	1.3480	1.3340
The first technical support level below where spot trades.	A deeper retracement is likely to find support here.	If price breaks below here, the uptrend is over.

Looking Ahead

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

GBP

09 Monday	10 Tue	11 Wed	12 Thu	13 Fri
AM: Mann speaks			AM: GDP	PM: Pill speaks

USD

09 Monday	10 Tue	11 Wed	12 Thu	13 Fri
PM: Various Fed speakers	PM: Retail sales	PM: Non- Farm Payrolls	PM: Unemployment claims	PM: CPI (inflation)

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PAYMENTS