

# FX Viewpoint

Currencies  
Global

## GBP-USD: Both central banks cut rates again

- ◆ The BoE cut rates again but lifted its inflation forecasts...
- ◆ ...which support the GBP at least over the near term
- ◆ The USD weakened after the Fed's 25bp cut, but we see the US economy consistent with a strong USD

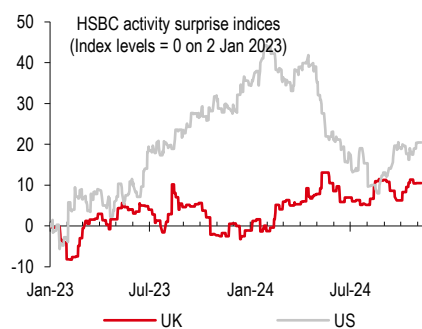
On 7 November, the Bank of England's (BoE) monetary policy committee (MPC) voted by 8-1 to lower its policy rate by 25bp to 4.75%, with Catherine Mann dissenting in favour of a hold. This second rate cut this year was widely expected.

This was also the first BoE meeting since the 30 October UK government budget, which laid out plans for big increases in taxes, spending, and borrowing. The inflationary element within the budget plan has seen markets pare back how aggressively the BoE may cut rates. The UK 2-year government bond yields has moved from c4% to c4.5% over the past two weeks, and markets expect BoE policy rate to bottom at c4% in 3Q25 (Bloomberg, 7 November 2024).

Perhaps, the market focus was that the UK central bank lifted its inflation and growth outlook over the next two years based on the budget measures. The BoE now expects inflation to be 2.7% (up 0.5ppt) in 4Q25, 2.2% (up 0.6ppt) in 4Q26, and 1.8% (up 0.3ppt) in 4Q27; while the GDP growth forecast next year is revised upward by 0.5ppt to 1.5%. These forecasts probably have validated the hawkish shift in market expectations for BoE policy rate, which sent GBP-USD higher. It seems more difficult for the GBP to weaken at least over the near term, in our view.

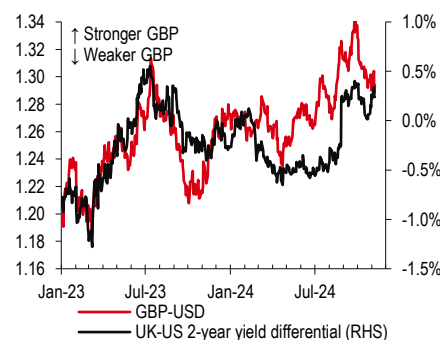
On the same day, the Federal Reserve (Fed) also announced a widely expected 25bp rate cut, lowering the federal funds rate to a range of 4.5% to 4.75%. The second-straight rate cut followed a larger 50bp reduction in September. Changes to the statement were modest and unprovocative for the USD, with no updated Fed forecasts at this meeting. Fed Chair Jerome Powell said that the outcome of the 5 November US election would not have any near-term effects on monetary policy decisions. Our economists still expect the Fed to deliver a 25bp cut in December, followed by an easing of 100bp in 1H25. While the broad USD weakened slightly, we think that the USD will probably revert to data-dependency mode (Chart 1). We see the US economy consistent with a strong USD, especially relative to many other G10 economies.

### 1. HSBC activity surprise indices



Source: Bloomberg, HSBC

### 2. GBP-USD and its yield differential



Source: Bloomberg, HSBC

It is worth noting that UK-US interest rate differentials did little to drive GBP-USD higher (Chart 2). But, when considering the relative fiscal outlook between the UK and the US, we think downside risks for the GBP may remain over the medium term.

The BoE cut by 25bp, in line with market expectations

Markets have pared back BoE easing expectations amid the inflationary element within the UK budget plan...

...which have been validated by the BoE's latest inflation forecasts; the GBP strengthened

While the USD weakened amid the Fed's 25bp cut, we still see the US economy consistent with a strong USD

GBP-USD may face downward pressure over the medium term amid relative fiscal outlook

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