

CURRENCY REPORT

JUNE 2026

Share:



GBP

MAY IN REVIEW

LABOUR FACES POLITICAL UPHEAVAL

- ◆ Labour all but wiped out in local votes
- ◆ Long-term unemployment is at a ten-year high
- ◆ Burnham cleared to stand in by-election
- ◆ Sterling's only driver is risk appetite

Local elections mark a sea-change in voting

The local elections marked a major shift, not just a bad night for Labour but a structural break in British politics. The 2026 results suggest the collapse of the traditional two-party system and the rise of a fragmented five-party landscape. Reform UK won 1,453 seats and topped the national vote share with 26%. Labour fell to 17%, level with the Conservatives and trailing the Greens and Lib Dems in some regions. Five parties now compete seriously in nearly 80% of wards. This was more than a protest vote; it was a political realignment.

Resignations, Challenges and no confidence

May began with fears of a Labour wipeout, and the results exceeded expectations. The aftermath brought Cabinet resignations, leadership speculation, and growing unrest among MPs, with more than 100 backbenchers signing a letter urging the Prime Minister to set a timetable for departure. Sir Keir Starmer spent much of the month out of the spotlight, re-emerging mainly to respond to criticism from Tony Blair.

Business lending collapses

SME lending has fallen from 12% of GDP in 2011 to 6.5% in 2026. This is significant for a country where SMEs account for more than 60% of private-sector jobs. Banks increasingly see SME lending as higher risk, lower margin and more capital-intensive under post-crisis regulation. The UK has recorded the slowest growth in the G7 over the past decade, marked by weak investment, low productivity and repeated economic slowdowns. Banks lend into strength, and the UK has shown little of it.

Sterling is held in a narrow range

Sterling traded in a narrow range throughout May, constrained by offsetting forces on both sides of the GBP/USD equation. Across major currency pairs, the pound remained within its broader one-year range, showing resilience but lacking break-out momentum.

JUNE WHAT TO WATCH

STARMER IS UNDER PRESSURE

- ◆ Makerfield may spell the end for Starmer
- ◆ The BoE is "more than likely to raise rates in June"
- ◆ Bailey's concerns about shadow banking rattles markets
- ◆ Sterling awaits a resolution of the conflict

Burnham faces a tough challenge

Andy Burnham faces an unpredictable and politically risky battle in the Makerfield by-election. A Survation poll puts Labour on 43% and Reform UK on 40%, with Restore Britain splitting the right-wing vote. Reform recently dominated the Wigan local elections, winning 24 of 25 seats, meaning Burnham is fighting to regain ground where Labour has suffered heavy losses. This is a genuine contest, not a straightforward return to Parliament.

Ministers line up for a leadership challenge

Ministers positioning themselves for a leadership contest suggest the Government is entering a dangerous phase where discipline weakens and factions emerge. Backbench criticism and poor election results can be weathered, but when serving ministers begin preparing for a succession battle, it signals that confidence in the Prime Minister's authority is fading.

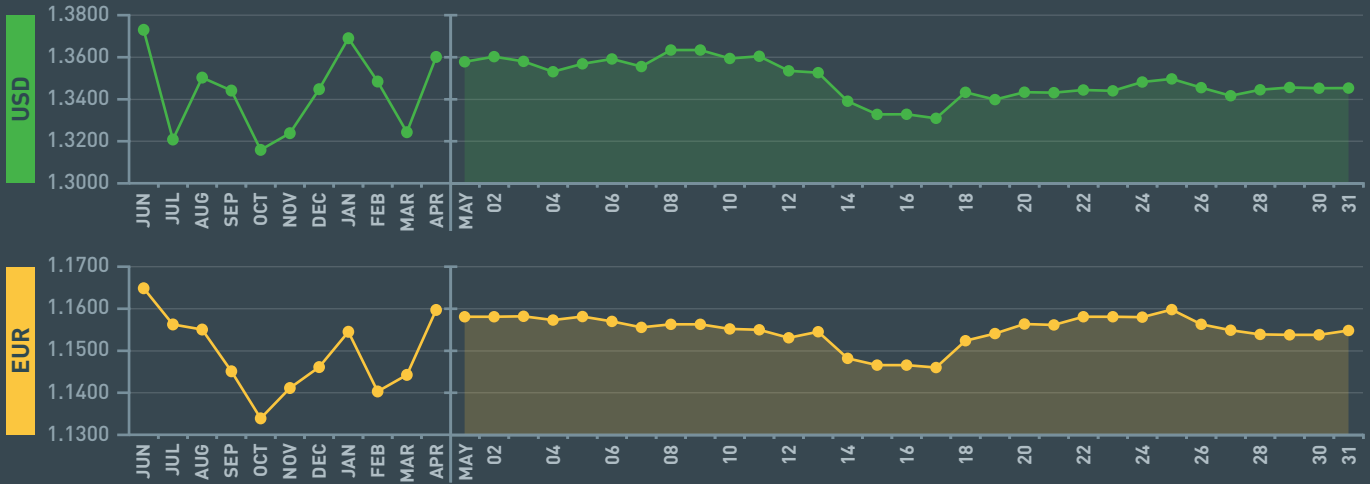
8-1 for a hold could become 9-0 for a hike

A shift from an 8-1 hold to a unanimous 9-0 vote for a rate hike at the June MPC meeting would mark a major hawkish turn by the Bank of England. It would suggest that concerns over inflation have strengthened and that policymakers now see delaying action as the greater risk. Such a move would likely be accompanied by firmer inflation forecasts and warnings about persistent wage pressures.

Sterling may gain strength from a rate hike

Sterling may gain strength if the Bank of England delivers a rate hike in June, a view well supported by current market analysis. A June hike is now increasingly plausible, and the FX implications are clear: higher UK rates typically lift GBP by widening yield differentials and signalling policy resolve. After the April hold, the Bank of England is now "edging closer to a rate hike in June", and this is narrowly the market's base case. When markets shift from uncertainty to conviction, GBP usually strengthens.

GBP INTERBANK RATES



Let our award-winning rate alert tool take the pain and hassle of constantly worrying about impactful market movements. Our exchange rate alert service is FREE, aimed at being your eyes and ears in the market.

JUNE 2026 : KEY EVENTS

| | | |
|---|--|--|
| 4 THURSDAY Construction PMI | 17 WEDNESDAY Core CPI y/y RPI y/y CPI y/y PPI Input m/m PPI Output m/m | 19 FRIDAY GfK Consumer Confidence Retail Sales m/m |
| 9 TUESDAY BRC Retail Sales Monitor y/y | 18 THURSDAY Average Earnings Index 3m/y Claimant Count Change Unemployment Rate Monetary Policy Summary MPC Official Bank Rate Votes Official Bank Rate | 22 MONDAY CBI Industrial Order Expectations |
| 11 THURSDAY RICS House Price Balance | | 23 TUESDAY Flash Manufacturing PMI Flash Services PMI |
| 12 FRIDAY Construction Output m/m GDP m/m Index of Services 3m/3m Industrial Production m/m Manufacturing Production m/m Goods Trade Balance | | |

USD

MAY IN REVIEW NO END IN SIGHT

- ◆ An uneasy peace prevails in Iran
- ◆ Kashkari warns of rising inflation risks
- ◆ Warsh is sworn in as Fed Chair
- ◆ The dollar gives back its safe-haven gains

Is Iran calling the shots?

Iran is not fully “calling the shots,” but it is shaping the conflict more than Washington or Jerusalem expected. It has largely controlled when, where, and how far tensions escalate across Iraq, Syria, Lebanon, the Red Sea, and the Gulf. This gives Tehran a degree of initiative, with the U.S. and Israel often reacting. President Trump insists he remains in control, yet several initiatives have stalled or failed to materialise.

FOMC members turn hawkish

Senior FOMC members including Austan Goolsbee and Neel Kashkari have complicated new Fed Chairman Kevin Warsh's first rate decision. They are pushing for a more hawkish stance as inflation remains elevated despite weaker Q1 GDP growth. Others, including Lisa Cook and Christopher Waller, have also argued the Fed should be ready to tighten policy if inflation proves persistent.

What will a new Fed Chairman deliver?

Warsh says he faces no pressure from President Trump to cut rates, despite Trump's earlier insistence on a dovish Fed Chair. While Warsh has moderated his previous hawkish views, markets are watching closely. A Fed Chair's approach to inflation, employment, and economic shocks shapes policy, making early speeches important indicators of future decisions.

The markets are prepared for a dollar rally

Markets are positioning for a stronger dollar, with FX, rates, and commodities signalling the same trend. The dollar may not surge, but conditions favour gains if upcoming catalysts align. Strong U.S. growth, resilient employment, and sticky inflation have kept yields elevated. Even after Q1 GDP was revised down to 1.6%, U.S. economic out performance continues to support the dollar, particularly against European and commodity-linked currencies.

JUNE WHAT TO WATCH TRUMP IS FACING MID-TERM DISASTER

- ◆ Warsh may raise rates at his first FOMC
- ◆ A hawkish Fed is not what Trump wants
- ◆ Inflation will continue to rise
- ◆ Several Banks make recession warnings

A June rate hike is the ultimate irony

A June rate hike would be ironic as it would mark the first FOMC meeting under Chair Kevin Warsh, while outgoing Chair Jerome Powell had resisted political pressure from Donald Trump to tighten policy more aggressively. A hike now looks likely, but the key question is whether it is a one-off or the start of a broader cycle. There is further irony in the idea that if Trump ended the war in Iran, inflation could ease, eventually forcing the Fed to reverse course and resume cutting rates.

What will Trump make of a hawkish Fed?

Trump is likely to view a hawkish Federal Reserve as both a political threat and a lever of influence, depending on the moment. During his first presidency, he repeatedly criticised the Fed for raising rates too quickly, strengthening the dollar, and hurting US manufacturing and exports. He openly attacked Jerome Powell, calling him “clueless” and even “a bigger enemy than China” during the 2019 trade tensions. A renewed cycle of rate hikes in 2026 would again clash directly with Trump's preference for looser monetary policy.

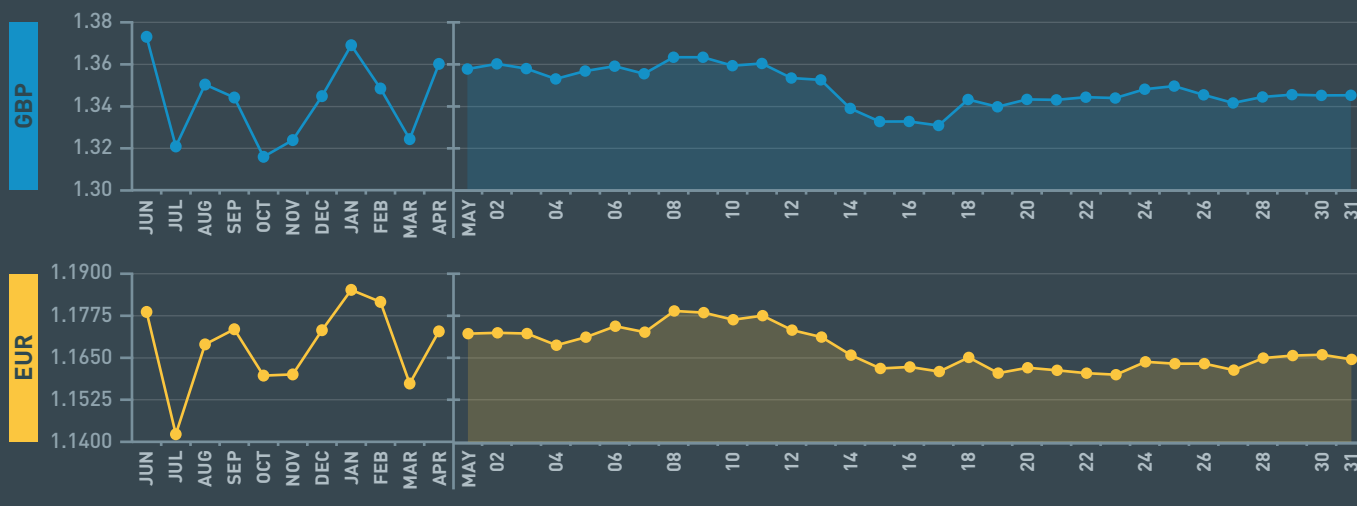
Wall Street expects inflation to continue to rise

Markets increasingly expect inflation to remain sticky or drift higher, driving a repricing across bonds, equities, and FX rather than outright panic. Investors now see the disinflation trend as stalled, with inflation likely to move sideways rather than fall decisively. Strong services demand, persistent wage growth, and elevated core inflation continue to dominate the CPI basket, making rapid disinflation unlikely.

How likely is a period of Stagflation?

Stagflation concerns are still present in the background of the US economy. With inflation at 3.6% and growth slowing to 1.6% in Q1, the risk is higher than at any time since 2022, even if the US is not currently in stagflation. Sticky inflation combined with weaker growth and tight financial conditions limits the Fed's ability to cut rates if the economy slows further. This dynamic is what keeps stagflation risk elevated.

USD INTERBANK RATES



Let our award-winning rate alert tool take the pain and hassle of constantly worrying about impactful market movements. Our exchange rate alert service is FREE, aimed at being your eyes and ears in the market.

JUNE 2026 : KEY EVENTS

| | | |
|---|---|--|
| 1 MONDAY Construction Spending m/m ISM Manufacturing PMI | 10 WEDNESDAY CPI m/m Core CPI m/m CPI y/y Federal Budget Balance | 17 WEDNESDAY Retail Sales m/m Business Inventories m/m Core Retail Sales m/m FOMC Statement Federal Funds Rate FOMC Press Conference FOMC Economic Projections |
| 2 TUESDAY JOLTS Job Openings | 11 THURSDAY Core PPI m/m PPI m/m | 18 THURSDAY Philly Fed Manufacturing Index |
| 3 WEDNESDAY Final Services PMI ISM Services PMI ISM Services PMI ADP Non-Farm Employment | 12 FRIDAY Treasury Currency Report | 23 TUESDAY Flash Manufacturing PMI Flash Services PMI |
| 4 THURSDAY Unemployment Claims | 15 MONDAY Empire State Manufacturing Index Industrial Production m/m | 25 THURSDAY Durable Goods Orders m/m Personal Spending m/m Core PCE Price Index m/m Final GDP q/q |
| 5 FRIDAY Unemployment Rate Average Hourly Earnings m/m Non-Farm Employment Change | 16 TUESDAY Building Permits Housing Starts | 30 TUESDAY CB Consumer Confidence |
| 9 TUESDAY Trade Balance | | |

EUR

MAY IN REVIEW

HEAVY HITTERS TURN HAWKISH

- ◆ The ECB has cut its growth forecast
- ◆ Lane sees inflation reaching 4%
- ◆ De Guindos bows out with a warning
- ◆ The Euro may suffer from a stronger dollar

Growth will suffer from a hawkish ECB

EU growth will suffer if the ECB turns more hawkish, and markets already understand the mechanism. The eurozone is vulnerable due to low trend growth, weak productivity, and high sensitivity to credit conditions. Hawkish policy amplifies all three. The eurozone is already the slowest-growing major bloc: Germany is near recession, while Italy and France are close to zero growth. Industrial production is weak, credit demand is falling, and PMIs are barely above contraction. This is not an economy that can handle higher rates. A hawkish ECB effectively tightens into stagnation.

Lane is concerned about rising inflation

ECB Chief Economist Philip Lane is concerned about rising inflation. He has highlighted pressures pushing inflation up again: strong wage growth and sticky services inflation. This remains the ECB's main concern. Middle East tensions and Red Sea disruptions are also lifting transport and input costs. Lane has stressed the need for "more evidence" that inflation is sustainably returning to 2% before rates can fall further.

The Changing of the Guard has begun

The "changing of the guard" at the ECB is underway, marking a shift in tone, priorities, and internal balance of power. Leadership change goes beyond the Presidency, affecting the Executive Board, national governors, and the Chief Economist's influence. As these roles rotate, policy behaviour shifts. Several senior figures are departing or signalling exits, with new appointments being prepared.

A bout of dollar strength will harm the Euro

A stronger USD tightens global financial conditions, weakens risk appetite, and exposes eurozone vulnerabilities. It also transmits directly into the real economy. If the Fed stays hawkish while the ECB hesitates, yield differentials widen, driving capital into U.S. assets and pushing EUR/USD lower. A stronger dollar also raises euro-denominated energy costs, worsening inflation, trade balances, and consumer spending.

JUNE WHAT TO WATCH

RATES WILL RISE IN JUNE

- ◆ A rate hike in June is now likely
- ◆ How oil shocks and inflation will reshape policy
- ◆ EU needs to reduce its dependence on imported energy
- ◆ 1.20 now looks a long way away

A data-driven ECB must raise rates

If the ECB wants credibility, it likely needs to raise rates in June. It may not signal this clearly, but the data points that way. A hold would stand out, and Lagarde would still need to sound hawkish. Despite leaning toward cuts in February, the ECB must stay flexible and show commitment to lowering inflation, even if that means tightening again.

Oil shocks need to be permanently addressed

The global economy can't absorb repeated energy price spikes without damage, especially in the Eurozone, which relies on imports. Oil drives transport, manufacturing, food, logistics, heating, and electricity, so spikes quickly feed inflation and force hawkish policy despite weak growth. Disruptions in the Middle East, Red Sea, and Strait of Hormuz are increasingly structural. With strong demand but constrained supply from underinvestment, sanctions, and geopolitical risk, oil shocks are becoming more frequent.

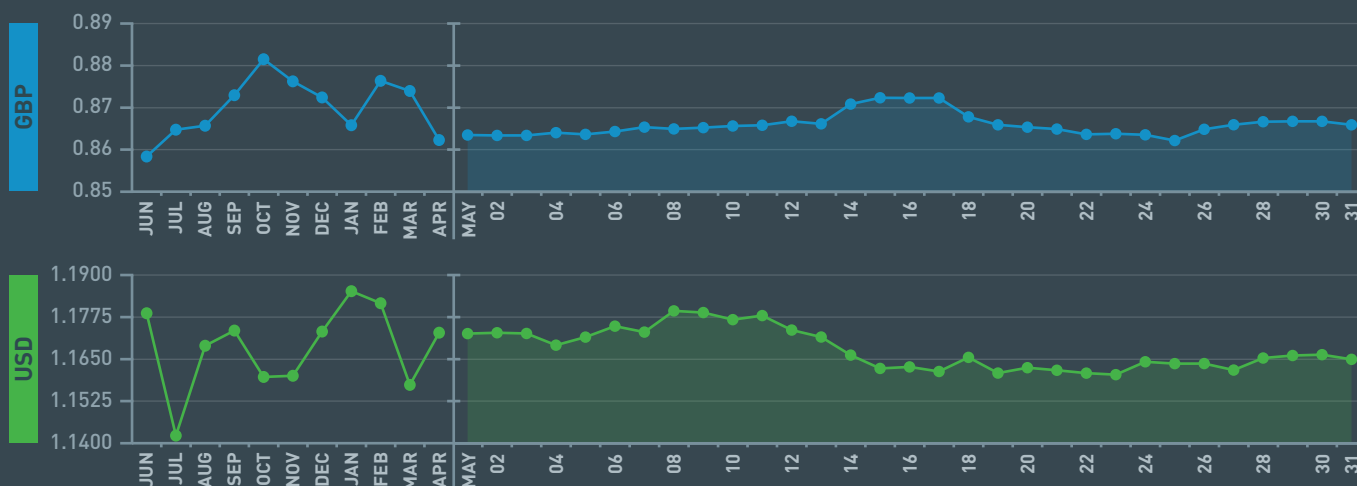
Outside factors are shaping ECB policy

ECB decisions are increasingly driven by external forces, especially energy and geopolitics. Middle East tensions, Red Sea disruptions, and OPEC+ strategy feed Eurozone inflation, which the ECB must react to even if it cannot influence it. Higher freight and insurance costs add pressure, keeping inflation sticky. The Eurozone's energy dependence and industrial structure leave the ECB in a persistently cautious position.

The Euro appears to be capped close to 1.18

EUR/USD faces a persistent ceiling around 1.18 driven by macro, policy, and flows. Even in risk-on periods, it struggles to break higher as fundamentals don't support it. Sticky US inflation and stronger growth keep US yields elevated, while the Eurozone faces weaker growth and supply-driven inflation. This yield gap remains the main constraint on Euro appreciation.

EUR INTERBANK RATES



Let our award-winning rate alert tool take the pain and hassle of constantly worrying about impactful market movements. Our exchange rate alert service is FREE, aimed at being your eyes and ears in the market.

JUNE 2026 : KEY EVENTS

| | | |
|--|--|---|
| 1 MONDAY Final Manufacturing PMI French Final Manufacturing PMI German Final Manufacturing PMI Italian Manufacturing PMI Spanish Manufacturing PMI Unemployment Rate M3 Money Supply y/y | 8 MONDAY Sentix Investor Confidence German Factory Orders m/m | 17 WEDNESDAY Final Core CPI y/y Final CPI y/y |
| 3 WEDNESDAY Final Services PMI French Final Services PMI German Final Services PMI PPI m/m | 9 TUESDAY German Industrial Production m/m German Trade Balance | 19 WEDNESDAY German PPI m/m |
| 4 THURSDAY Retail Sales m/m | 11 THURSDAY ECB Press Conference Main Refinancing Rate Monetary Policy Statement | 22 MONDAY Consumer Confidence |
| 5 FRIDAY French Industrial Production m/m French Trade Balance | 12 FRIDAY German Final CPI m/m French Final CPI m/m | 23 TUESDAY French Flash Manufacturing PMI French Flash Services PMI German Flash Manufacturing PMI German Flash Services PMI |
| | 15 MONDAY Industrial Production m/m Trade Balance | 24 WEDNESDAY German Ifo Business Climate |
| | 16 TUESDAY ZEW Economic Sentiment | 25 THURSDAY German GfK Consumer Climate |

GLOBAL

MAY IN REVIEW



AUSTRALIA - AUSTRALIAN DOLLAR

Inflation eases to 4.2%, but an interest rate rise is still on the horizon

Inflation slowed to 4.2% in the year to April as the Government's fuel excise relief fed through to lower petrol prices; even then, economists warned the Reserve Bank may still need to hike interest rates later this year to tame stubborn inflationary pressures. Fuel prices fell by 7% last month, retracing some of the 33% surge in March as the US-Israel attack on Iran closed a key Middle Eastern shipping route and triggered a global oil supply shock. Regular unleaded averaged \$2.06 a litre in April, down from an average of \$2.28 in the month before, according to the Australian Bureau of Statistics.

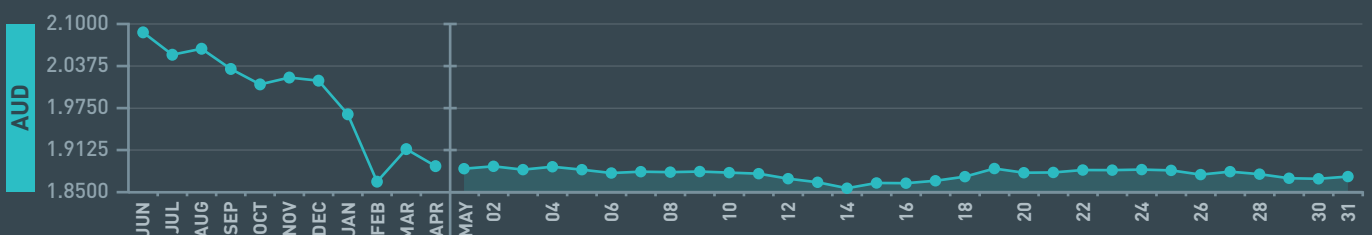
The AUD follows the USD

The Australian dollar posted a mixed but ultimately softer performance through May, drifting lower against the U.S. dollar as rate-hike expectations faded and global risk sentiment turned cautious.

Australian economy getting real about AI

AI is beginning to show up in Australia's economic data as it shapes investment, hiring and business operations. New research from NAB Economics and Markets Research finds the impact of AI is expected to build gradually and vary across sectors, firms and the workforce. The AI in Australia report finds that adoption is already evident, with software investment accounting for about 10% of total private-sector business investment. Increased demand for digital infrastructure, such as data centres, is also contributing to growth in business investment. NAB Chief Economist Dr Sally Auld said the long-term impact of AI could be significant, the benefits would take time to emerge and were unlikely to be evenly distributed across the economy.

AUD INTERBANK RATES



GLOBAL

MAY IN REVIEW

CANADA - CANADIAN DOLLAR

Canadian bank stocks are flying, but economy is not

Bank stocks are rallying on earnings resilience and hopes of rate cuts, while the real economy remains stuck in a slowdown. This is a classic case of markets pricing the future while the economy reflects the present. Despite a weak economy, the Big Six have maintained stable net interest income, strong wealth-management revenues, solid capital buffers and manageable loan-loss provisions. Investors expected worse, so the upside surprise is being rewarded. Canadian banks were trading at multi-year lows relative to earnings. A rebound was almost inevitable once sentiment stabilised.

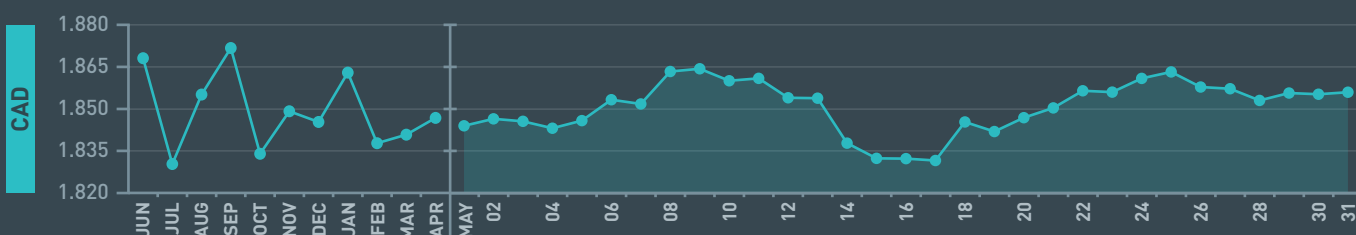
CAD reacts to mixed oil prices

The Canadian dollar weakened modestly through May, slipping toward the lower end of its recent trading range as USD strength, softer domestic momentum, and mixed oil prices kept the loonie on the defensive.

Banks see reasons for optimism

The Bank of Canada says the economy is navigating a “volatile” global environment and that “vulnerabilities” exist that could expose Canada to shocks on multiple fronts. The central bank released its annual Financial Stability Report on Thursday, which gauges the resilience of the Canadian financial system and highlights key risks that could undermine that resilience. Senior Deputy Governor Carolyn Rogers and Deputy Governor Toni Gravelle authored it. “Canada’s financial system has functioned well through a challenging year,” Rogers said in the report. “However, vulnerabilities have increased in some parts of the system.” “The economic and geopolitical environment has become more volatile, and this has made it more likely that a new shock or a combination of shocks could cause several vulnerabilities to crystallise at once. If this were to happen, these vulnerabilities could interact and reinforce each other.” This means that Canada’s economy could be damaged if some of these risks escalate and become much more serious.

CAD INTERBANK RATES



GLOBAL

MAY IN REVIEW

JAPAN - JAPANESE YEN

Inflation slowdown unlikely to derail BOJ rate hike

Even if headline inflation cools temporarily, the BOJ's decision-making is now driven by structural forces rather than month-to-month CPI noise. Japan has already crossed the psychological and economic threshold that kept rates at zero for decades. A brief inflation slowdown won't reverse that shift. The BOJ has repeatedly said that sustained wage growth, not headline CPI, is key to policy normalisation. This year's Shuntō wage negotiations delivered the strongest pay increases in over 30 years, with broad-based wage gains across sectors and rising bonuses and base pay. This is exactly the scenario the BOJ has been waiting for.

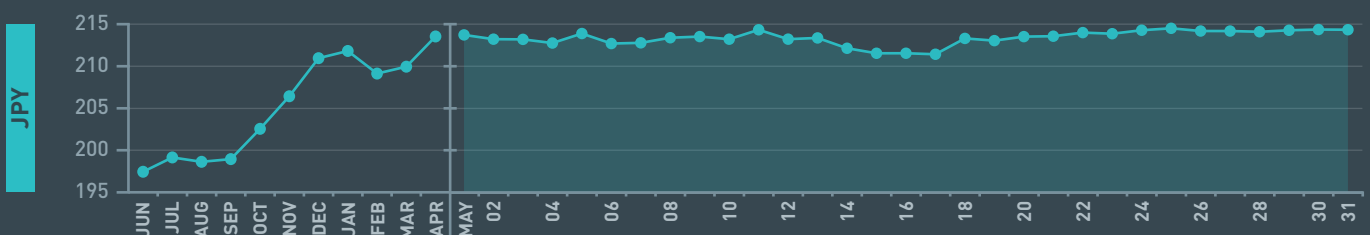
The BoJ may need to support the JPY

The Japanese yen remained weak and under heavy pressure throughout May, with USD/JPY trading persistently in the 157-159.5 range and repeatedly edging back toward the psychologically critical 160 level. Across all asset classes, May was another month defined by yen softness, driven by weak domestic data, firm U.S. yields, and ongoing intervention fears.

Japan plans 'bridging bonds' to fund investments

Japan plans to use so-called bridging bonds to help finance Prime Minister Sanae Takaichi's investment plans, the Government's top spokesperson said, a move that comes amid investor concerns about further debt issuance. "Japan has implemented multiyear budget measures through the issuance of bridging bonds backed by funding sources," Chief Cabinet Secretary Minoru Kihara told reporters, citing previous examples used to help fund corporate efforts to adopt green technologies. "We will further expand such initiatives and work towards realising a stronger economy," he said. Bridging bonds are designed to cover temporary funding shortfalls on the premise that future funding resources can be secured. The Finance Ministry classifies them separately from deficit-covering bonds, and recent examples include special bonds issued to fund childcare programmes.

JPY INTERBANK RATES



GLOBAL

MAY IN REVIEW

GEOPOLITICAL AND ECONOMIC FACTORS

We're all in the same boat

The FX market is experiencing one of its quietest periods in twenty-five years. The war in Iran has stalled growth, while the ongoing energy crisis is fuelling inflation concerns across G7 nations. How policymakers respond will dominate the second half of 2026. The Fed is expected to raise rates despite its new Chairman's assurances to President Trump. The BoE appears set for a significant policy shift with a rate hike, while the ECB remains unusually cautious, even though a rise still seems likely.

Is Trump totally blind to risk?

Trump is not "totally blind" to risk, but he consistently discounts, reframes, or outsources it, making him appear far less sensitive to risk than most political leaders. Most leaders ask: "What could go wrong?" Trump asks: "How do I frame what happens so I don't lose?" This means risks become messaging problems, consequences become someone else's fault, and uncertainty

becomes an opportunity to project strength. It's not blindness; it's reframing. Across reporting and analysis, Trump consistently prioritises immediate political advantage, visible victories, and headline-level outcomes over institutional stability, long-term economic trade-offs, and geopolitical second-order effects. This is why analysts often describe his risk tolerance as unusually high.

Will Starmer survive?

That is the question many commentators are asking, but first comes Makerfield. If Burnham wins the by-election, strengthening Labour's position against Reform, Starmer may well remain on course to lead the party into the 2029 General Election. If Labour loses, Burnham must decide whether to seek another route into Parliament through a resignation-triggered contest or wait until 2029.



DON'T LET CURRENCY IMPACT YOUR BOTTOM LINE

SMEs unknowingly lose tens of thousands each year on international payments. Stop overpaying on business money transfers and start protecting your company profits, without compromising on security, speed and quality of customer service.



WHAT DOES FCA AUTHORISED MEAN?

FCA authorised payment institution defined

The Financial Conduct Authority (FCA) is the UK's financial regulator, overseeing firms that provide services to consumers and maintaining the integrity of UK markets.