FX Viewpoint

Currencies
Global

Mounting headwinds for the EUR and GBP

- Cyclical drivers point to USD gains with a more hawkish Fed, while elevated energy prices also provide support
- The EUR faces headwinds from gas prices and if the ECB fails to deliver the tightening already priced by markets
- GBP-USD could weaken as the resilient US economy contrasts with the UK's more tepid activity

Relative rates and US energy resilience is helping the USD

We expect the broad USD to **strengthen modestly in the near term** as cyclical, political and structural forces turn more supportive or become less of a headwind. The key question is whether **US rate expectations will remain firm relative to those elsewhere**. However, energy-price resilience and a broader reassessment of fiscal risk should also favour the USD at the margin. We look at two currencies where we think the USD has the upper hand.

The EUR faces pressure from elevated energy costs

EUR: rate and energy headwinds

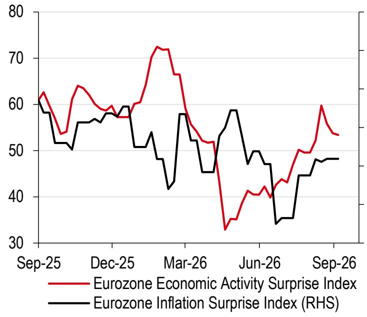
The EUR remains vulnerable to **uncertainty over the European Central Bank's appetite to raise rates**, particularly given the Federal Reserve's more hawkish messaging at its September meeting. Even if the relative rates story does not drive dramatic moves in EUR-USD, Europe's greater exposure to elevated energy costs could weigh on growth and the external balance. Despite stronger PMI readings, other economic data in September has generally disappointed so far (Chart 1), posing challenges for the EUR.

Inflation risks and weak growth could weigh on the GBP

GBP: weak UK growth

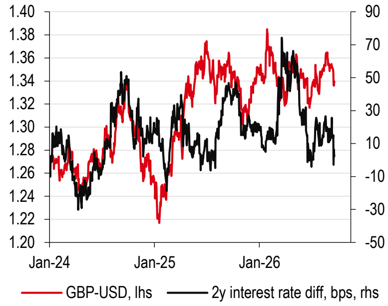
Weak UK labour demand and sluggish private sector momentum could weigh on the GBP in the near term, particularly as the US economy is looking more resilient. Markets are already pricing around 100bp of tightening from the Bank of England by July 2027, but higher energy prices create a difficult policy mix: **inflation risks are rising even as growth momentum faces a challenging outlook**. The run-up to the budget update on 28 October may add further pressure, with elevated gilt yields (Chart 2) and difficult fiscal choices ahead for the new Chancellor.

1. Eurozone activity surprises have shown some signs of peaking



Source: HSBC, Bloomberg. Note: Updated as of 20 Sep 2026

2. GBP-USD rich versus rate differentials



Source: HSBC, Bloomberg

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