

FX Viewpoint

Currencies
Global

GBP: BoE's cut in a 3-way split and US-UK trade deal

- ◆ The BoE cut rates to 4.25% in May, but a surprise three-way vote split cooled market expectations for future cuts
- ◆ US-UK trade deal with few details immediately announced; most UK goods exports to the US will still face the 10% tariff
- ◆ The GBP's reaction was rather muted and is likely to move sideways against the USD in the weeks ahead

The GBP weakened slightly against the USD after the announcement of a US-UK trade deal, erasing an early gain amid the Bank of England's (BoE) hawkish cut.

Unlike the Federal Reserve (Fed) that paused rate cuts for a third straight meeting, the BoE decided to lower its key policy rate by 25bp to 4.25% on 8 May. The decision came in line with market expectations, but **the vote dividing the 9-member monetary policy committee (MPC) into three groups was a surprise**. Five of them voted for the move, while two preferred a larger 50bp reduction and another two voted to hold rates steady. **The BoE did not change its forward guidance**, reiterating "a gradual and careful approach to the further withdrawal of monetary policy restraint". The UK central bank **now sees slightly weaker inflation but stronger near-term growth**. Its growth forecast for this year was raised to 1% (from its February projection of 0.7%) and that for next year was lowered to 1.25% (from 1.5%), while the outlook for 2027 was unchanged at 1.5%. However, with two MPC votes for a hold and no change to the BoE guidance, **the tone was a little more hawkish than expected**.

The GBP strengthened modestly against the USD, as markets pared some rate cut expectations (and more so after the US-UK trade deal), currently seeing only two more 25bp BoE cuts this year (*Bloomberg*, 9 May 2025).

As for **the US-UK trade deal**, which **US President Trump noted will be "the first of many"**, its benefit and scope appear to be rather limited, with few details immediately announced. **Most UK goods exports to the US will still face the 10% tariff, compared to an average tariff of 2.2% previously**. For now, the trade deal includes lower US tariffs on British steel and aluminium, from 25% to zero. Other benefits include lowering the tariff on British-made cars to 10% from 27.5%, but only for the first 100,000 cars entering the US. New reciprocal market access is granted on beef, which gives UK farmers a tariff free quota for 13,000 metric tonnes and the UK removed a tariff on ethanol entering the UK from the US. There are other elements that may benefit the UK aerospace and pharmaceutical sectors, in addition to some promises to ease some non-tariff barriers with more mutual investment, but details are limited, and discussions ongoing.

On a positive note, **the trade framework removes some uncertainty surrounding future trade relations between the two countries** which should support business investment sentiment. But until other regions, especially the EU and China, conclude their negotiations, it will be difficult to judge the deal in isolation.

The GBP sees muted reaction to the trade framework with the US. Part of the explanation is that **the USD is capitalising on signs that US trade policy uncertainty is declining**, thereby overshadowing the relief from a trade deal that might offer to the US economic outlook. It is also possible that **the GBP is being hit by other domestic headlines**, with the National Institute of Economic and Social Research (NIESR) pointing to **UK fiscal policy headaches ahead** (*Bloomberg*, 8 May 2025). All things considered, **the GBP is likely to move sideways against the USD in the weeks ahead**.

The BoE cut rates by 25bp in a three-way vote split

Markets now expect two more BoE cuts this year

The benefit and scope of the US-UK trade deal appear to be rather limited, with discussions ongoing

The GBP is likely to move sideways against the USD in the weeks ahead

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