

# Currency Flash: Euro/Pound Sterling

April 9, 2026

- ▶ During the first three quarters of 2025, sterling depreciated against the euro, despite having a favorable interest rate differential, due to the resilience of the eurozone and fiscal pressures and political uncertainty in the United Kingdom. Since then, this dynamic has partially reversed, with a moderate appreciation that has become more pronounced following the conflict in the Middle East, during which sterling has outperformed most major currencies, aside from the US dollar.
- ▶ The British economy is in a delicate position: on the one hand, the labor market continues to deteriorate, with the unemployment rate close to pandemic-era highs; on the other, political instability is mounting, with Starmer posting the lowest approval rating of any prime minister in the past 50 years, and the two traditional parties at historically low levels of support, amid the rise of populist parties on both the left and the right.
- ▶ With regard to monetary policy, the conflict in the Middle East has abruptly changed the outlook. The Bank of England had been on an accommodative path from relatively high interest rates, with inflation gradually approaching the 2% target. However, inflationary risks stemming from the conflict have triggered a shift toward a more restrictive stance: markets are pricing in between two and four rate hikes by the end of 2026. In such a scenario, and against a backdrop of high stagflation risk, there are doubts as to whether a more restrictive BoE would support sterling if the economic deterioration is too severe.
- ▶ We expect, however, that already restrictive interest rates and fiscal policies that help contain inflation over the medium term (such as the Ofgem price cap) will increase the likelihood that the BoE does not raise interest rates (in contrast to the expected tightening by the ECB). This is reflected in the divergence between market-implied rates and consensus analyst forecasts, which point to a stable policy rate. In this case, sterling would also weaken. Therefore, under both scenarios, the outlook for sterling points to depreciation against the euro.

## EUR/GBP long term



## Market overview

Last	12M high	12M low
0.87	0.88	0.84

Based on closing prices from the last session.

Change in:	Volatility in:
1 month 0.57%	1 month 3.63
3 months 0.31%	3 months 3.94
2 months 1.93%	12 months 4.57

(-) Deprec. (+) Appreciation of the euro against the pound

Note: Volatility is calculated from the standard deviation of daily exchange rate changes during each period.

## Strengths of the pound

1. A favorable interest rate differential increases the attractiveness of the United Kingdom for foreign investors.
2. Since the start of the conflict in the Middle East, sterling has been the best-performing currency among the major ones, excluding the US dollar.
3. The Bank of England showed a shift toward a more restrictive policy at its March meeting.

## CaixaBank Research forecasts

Curr. ER	Q1 26	Q2 26	Q3 26	Q4 26
0.87	0.88	0.89	0.89	0.90

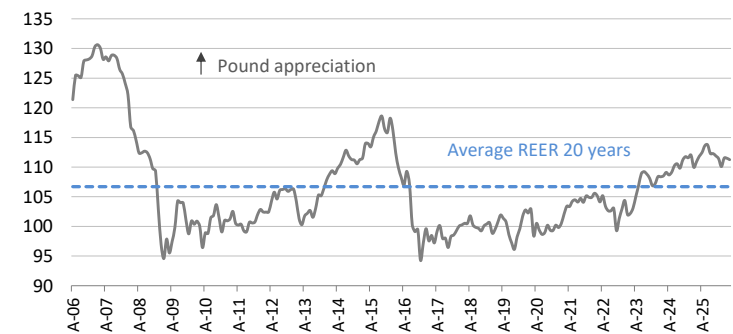
Source: CaixaBank Research. Data as of period end.

## Macro data and forecasts for the United Kingdom

	Last	2025	2026	Valuation
Real GDP (y/y) <sup>(1)</sup>	1.0 Q4 25	1.4	0.7	Slowdown
CPI (y/y) <sup>(1)</sup>	3.0 Feb-26	3.4	2.5	Cooling
Unemployment (%)	5.2 Jan-26	4.8	5.3	Weakening
CA balance (%GDP)	-2.4 Q4 25	-2.4	-2.95	Growing deficit
Fiscal bal. (% GDP)	-5.1 Q4 25	-5.2	-3.8	Fiscal contraction
BoE rate	3.75 Apr-26	3.75	3.42	Stable due to stagflation

(1) CaixaBank Research forecasts. Other, forecasts from Bloomberg Consensus. End of period for official rates.

## Real effective exchange rate of the pound (last 20 years)



## Fundamental valuation of the pound against the euro

SPOT EUR/GBP	0.871	Deviation
PPP CPI (OECD)	Dec-25 0.57	-34%
Big Mac	Jan-26 0.87	0%

(-) Undervaluation (+) Overvaluation of the pound

REER GBP	Desviación
Last Feb-26 105.88	
Average 10Y 87.69	17.2%
Average 20Y 106.70	-0.8%

(-) Undervaluation (+) Overvaluation of the pound

## Weaknesses of the pound

1. The country is mired in significant political instability.
2. The labor market has been weakening since 2022, and there are no signs that this situation will reverse in the near term.
3. Stagflationary risks could disrupt current market expectations regarding the restrictiveness of the Bank of England.

## Consensus forecasts

Q1 26	Q2 26	Q3 26	Q4 26
0.87	0.88	0.88	0.88

Source: Bloomberg. Data as of period end.

## Macro data and forecasts for the euro area

	Last	2025	2026	Valuation
Real GDP (y/y) <sup>(1)</sup>	1.2 Q4 25	1.4	1.3	Moderate growth
CPI (y/y) <sup>(1)</sup>	2.5 Mar-26	2.1	1.9	Stable in the 2%
Unemployment (%)	6.3 Q4 25	6.3	6.2	Minimum levels and stable
CA balance (%GDP)	1.6 Q4 25	2.7	1.9	Cooling
Fiscal bal. (% GDP)	-3.0 Q3 25	-3.1	-3.4	Surpassing the limit
ECB deposit rate <sup>(1)</sup>	2.00 Apr-26	2.00	2.00	Stable

(1) CaixaBank Research forecasts. End of period for official rates. Other, OECD forecasts.