

## Markets Update

Tuesday, 07 July 2026

- The UK's fragile government bond market is becoming a major issue for Andy Burnham, the likely next prime minister and may limit what the former Manchester mayor can achieve in office. Burnham has already tried to reassure investors about the risk of higher public spending by pledging to follow the government's existing fiscal rules. However, Prime Minister Keir Starmer has left him with a GBP 4.7 billion funding shortfall for defence and has suggested using the government's remaining fiscal "headroom" to cover it. Burnham has benefited from some favourable conditions though. UK bond yields and therefore government borrowing costs, have dropped sharply after a US-Iran deal pushed oil prices lower.
- Industrial production in Germany increased more than expected in May, supported by a sharp rise in automotive output. Industrial output was up 0.9% from the previous month, the federal statistics office said this morning.
- On the currency front, sterling's strength reflects waning expectations of ECB rate hikes, energy-related risks to euro area growth and easing UK political uncertainty.
- Sterling came under significant pressure in May and early June as hedge funds and asset managers built bearish GBP options positions amid the prospect of Manchester Mayor Andy Burnham challenging for prime minister, fuelling concerns over fiscal loosening and political instability. However, when Keir Starmer resigned in late June, both the pound and gilts edged higher as the path to a successor became clearer. The easing of political uncertainty appears to have removed a key drag on sterling.

### Market rates at opening

GBP/USD	1.3383
GBP/EUR	1.1705
EUR/USD	1.1430
EUR/GBP	0.8538
GBP/AUD	1.9267
GBP/CAD	1.9016
GBP/CHF	1.0785
GBP/DKK	8.7507
GBP/HKD	10.4935
GBP/JPY	216.57
GBP/NOK	13.0936
GBP/NZD	2.3506
GBP/SEK	12.8972
USD/CNY	6.7979

## CONTACT INFORMATION

Contact Markets on 028 9089 1111 / 028 9089 1100

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**EMAIL:** [markets@danskebank.co.uk](mailto:markets@danskebank.co.uk)

**WEBSITE:** [www.danskebank.co.uk](http://www.danskebank.co.uk)

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