

Markets Update

Thursday, 01 October 2026

- **GBP/EUR, GBP/USD and EUR/USD – morning levels:** Sterling is trading near 1.1720 against the euro, its strongest level in over a month. GBP/USD is around 1.3250-1.3265, while EUR/USD is near 1.1320. Rate expectations continue to support sterling against the euro, with markets pricing around 90 basis points of ECB hikes by year-end, compared with 33 basis points from the BoE. GBP/USD remains below 1.33 amid broader dollar resilience and elevated US Treasury yields.
- **Governor Bailey highlights AI and financial stability risks:** Bank of England Governor Andrew Bailey said frontier AI requires rigorous testing before and after deployment, ahead of tighter regulation. The Financial Policy Committee also warned that interconnected financial-system risks have increased amid renewed conflict in the Middle East and rapid growth in AI-related debt issuance, estimated by Morgan Stanley at around USD 450bn globally in 2026.
- **US core PCE inflation eases, reducing expectations of an October Fed hike:** US core PCE inflation rose 3.0% year-on-year in August, below the 3.3% consensus and the FOMC's 3.4% year-end forecast. Markets now price roughly a 37% chance of a Fed hike at the 27-28 October meeting, down from around 70% a week ago. However, the 10-year US Treasury yield reached 5.30%, its highest level since June 2007, while upwardly revised Q2 GDP growth of 2.2% keeps the prospect of another year-end hike in focus.
- **Eurozone inflation accelerates, maintaining pressure on the ECB:** September inflation accelerated across major eurozone economies, with France's harmonised rate rising to 3.4% from 2.6% and Italy's rising to 4.1% from 3.2%. Markets continue to price around 90 basis points of ECB hikes by year-end. This backdrop may keep EUR/GBP and EUR/USD under pressure.
- **Today's economic data – ISM manufacturing and weekly claims in focus:** Markets turn their attention to a busy US data calendar today, headlined by the September ISM Manufacturing PMI at 15:00 BST and weekly initial jobless claims at 13:30 BST. The final September S&P Global Manufacturing PMI and August construction data round out the releases, alongside a packed schedule of Fed speakers, including voters Williams and Logan.

Market rates at opening

GBP/USD	1.3251
GBP/EUR	1.1718
EUR/USD	1.1308
EUR/GBP	0.8533
GBP/AUD	1.9073
GBP/CAD	1.8861
GBP/CHF	1.1091
GBP/DKK	8.7596
GBP/HKD	10.3976
GBP/JPY	209.8400
GBP/NOK	12.7722
GBP/NZD	2.3603
GBP/SEK	13.3086
USD/CNY	6.7044

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