

Group Economics

Top of Mind

UK & BoE outlook post-Makerfield

Please post your questions using the Q&A function

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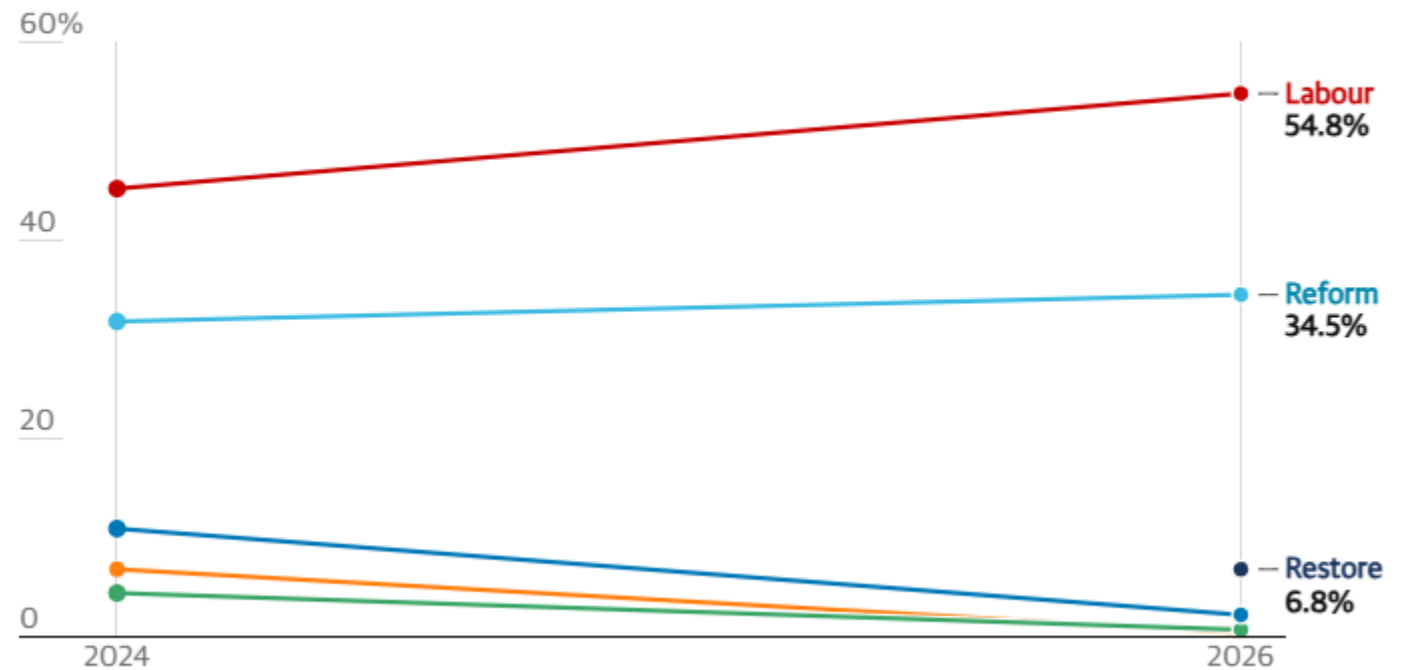
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Burnham wins big in Makerfield

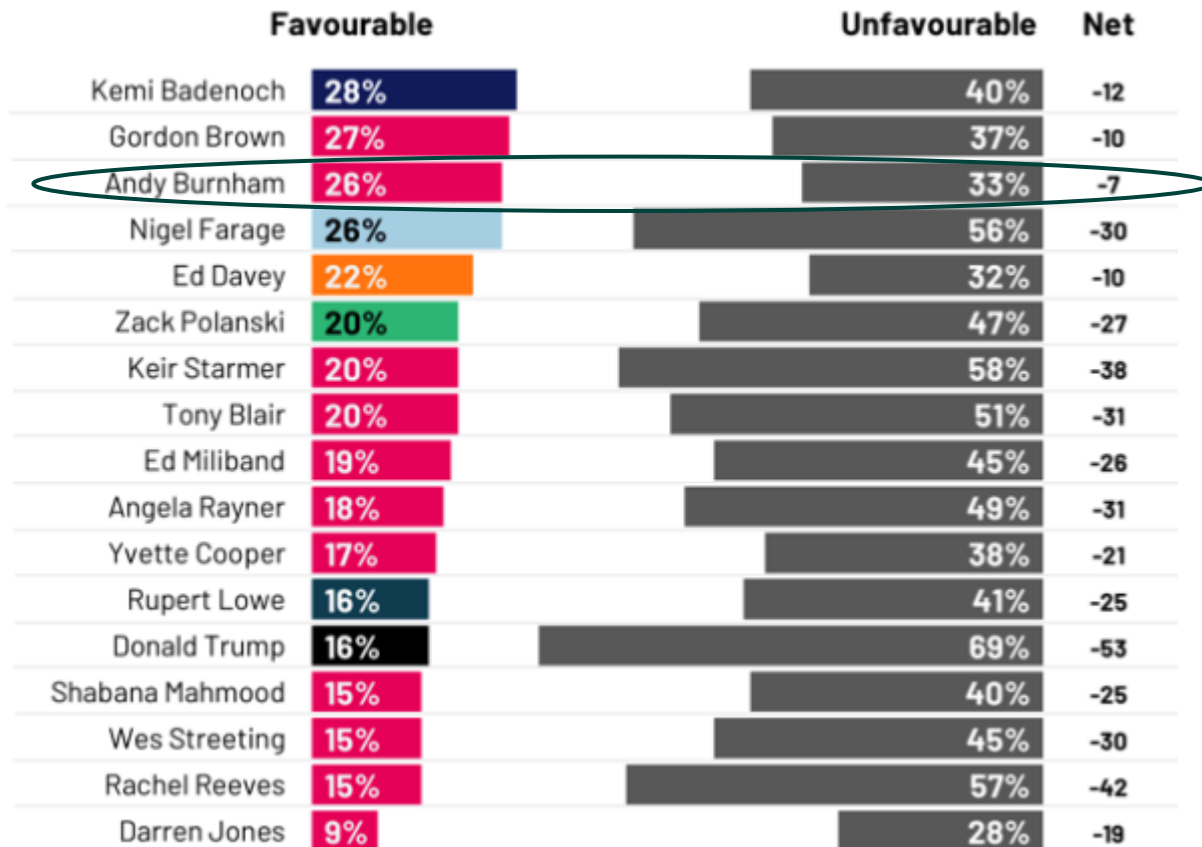
- Burnham not only won, but did so comfortably
- He managed to *increase* Labour's vote share, and would have won even without Restore splitting the right
- The scale of his win piles pressure on Starmer to set out a timetable for his departure
- We expect a leadership contest to be triggered in the coming weeks – with Starmer's approval or without

Share of votes in 2024 general election and 2026 byelection



Guardian graphic. Source: Press Association. Notes: 2024 results available on hover

Burnham has the highest net approval rating

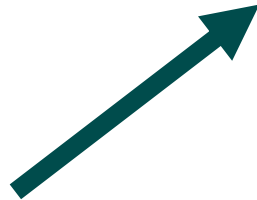


- Among leading politicians, Burnham is – on net – the least *disliked*. In some polls he is the only major UK politician with a net positive rating
- This likely reflects his popularity as Manchester mayor
- Burnham’s leadership rivals are far less popular
- **Side note:** Nigel Farage barely does better than Keir Starmer in polling

Who are Burnham's rivals?



Wes Streeting
Former Health Secretary



Angela Rayner
Former Deputy Prime Minister

Yvette Cooper
Foreign Secretary



Shabana Mahmood
Home Secretary



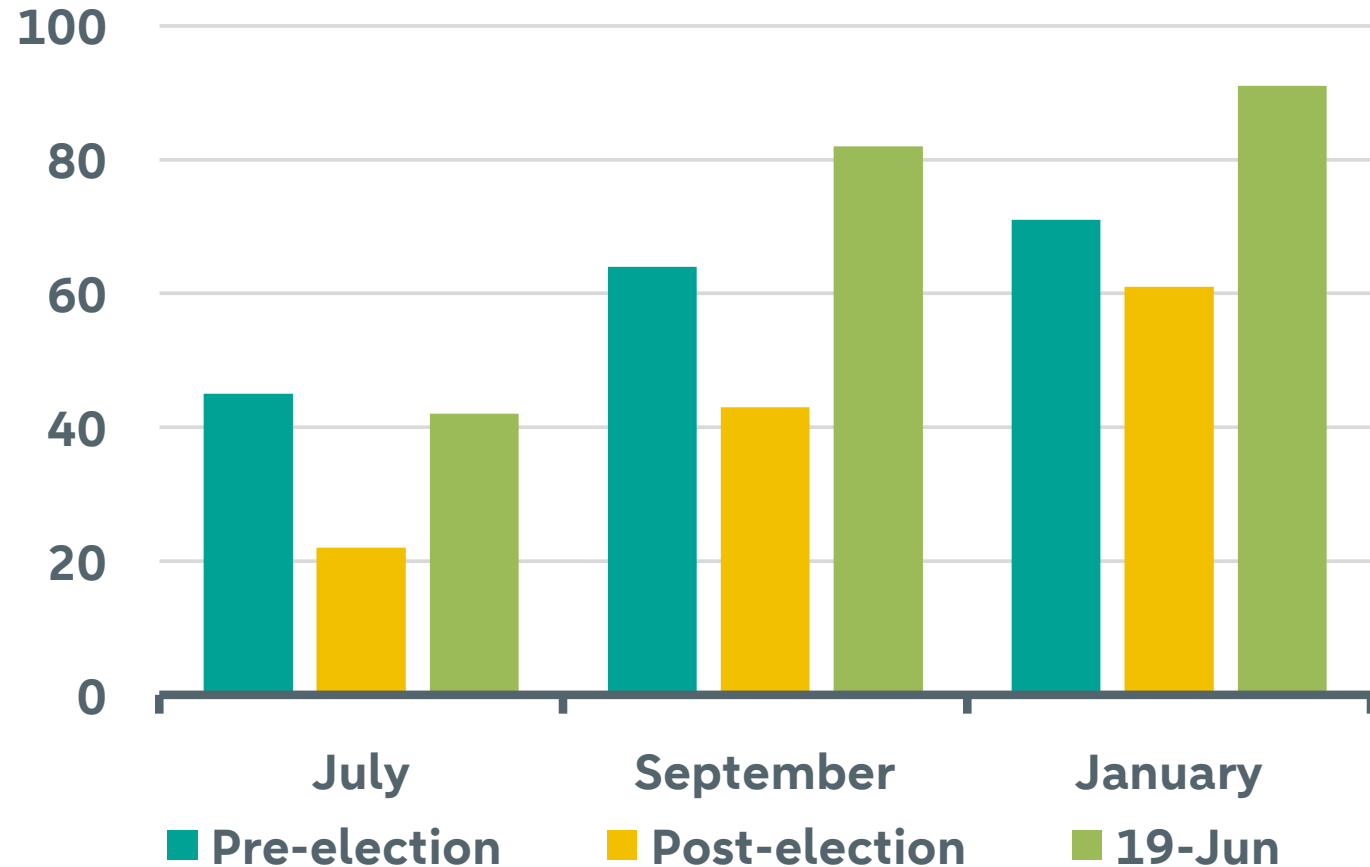
Ed Miliband
Energy Secretary



Burnham likely to become PM by place by September

- Leadership contest likely over the coming months...
- ...with a new PM likely installed before the September conference season
- Process: 1) A challenger needs nominations from 20% of the Parliamentary Labour Party, i.e. 81 MPs currently, 2) they then need nominations from 5% of constituency Labour Parties OR at least three affiliated organisations (unions)
- If Starmer resigns it's more straightforward (10% PLP threshold)
- If no other challenger emerges to Burnham, he could be PM very soon

Starmer out by..., betting market implied probability %



What would Andy Burnham do?



- **Nationalisation of ‘the essentials of life’:** Starting with the nationalisation of Thames Water, supposedly at a low cost as it is a distressed asset
- **State-led housebuilding:** Wants to set up regional housing corporations and restart large-scale council house building funded with rents
- **Tax reform:** Land Value Tax to replace council tax, ‘Care Levy’ to replace inheritance tax
- **Electoral reform:** Abolish House of Lords, Proportional Representation to replace first past the post

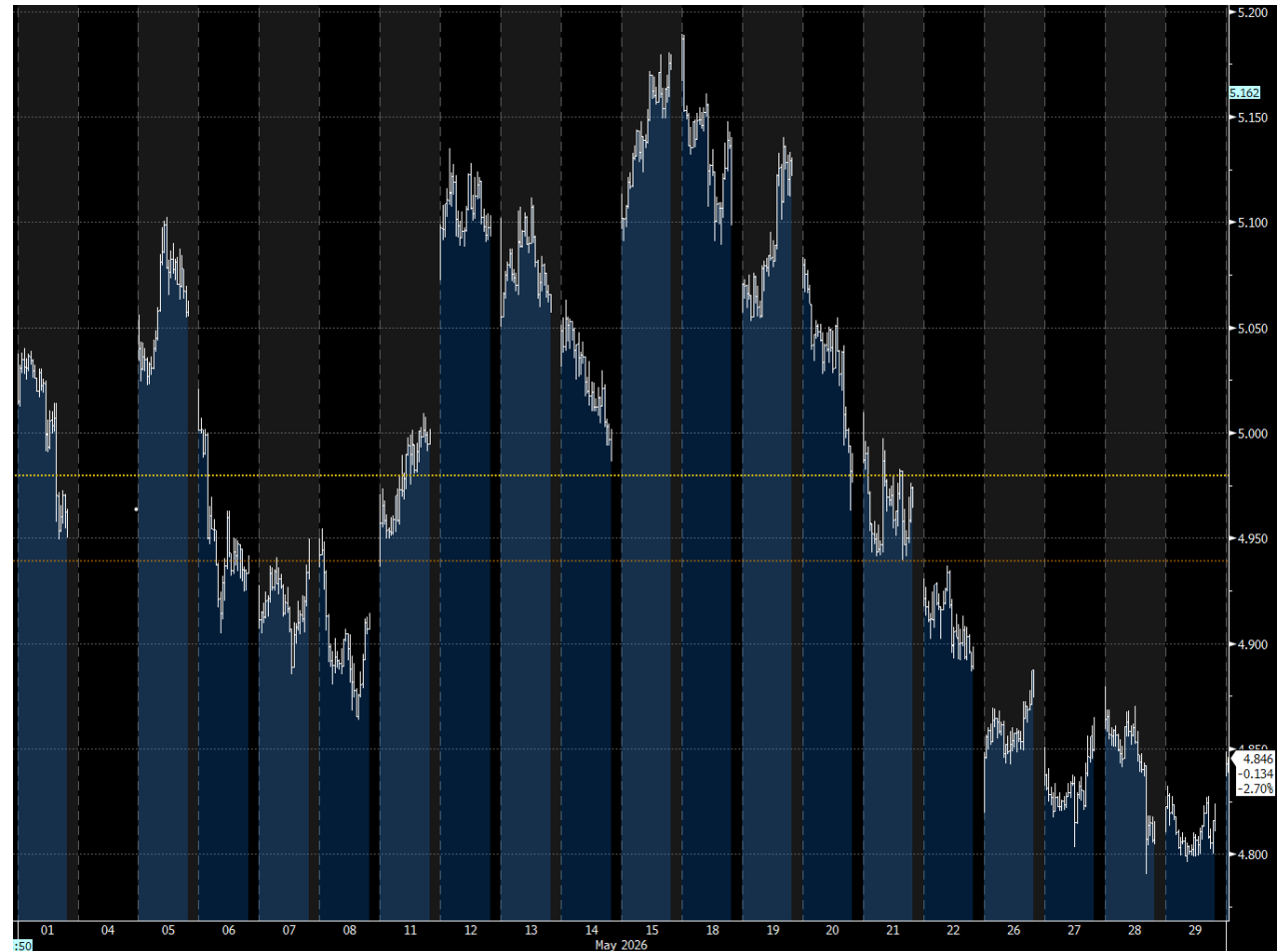
Other views:

- **Disdain for Thatcher**, whose policies were responsible for "the deindustrialisation, the draining away of economic, social and political power" — and that "Britain has been on that path for 40 years."
- **‘Respects’ Brexit** – In contrast to Wes Streeting, he said he would **not** propose rejoining the EU

How committed is he to the fiscal rules?

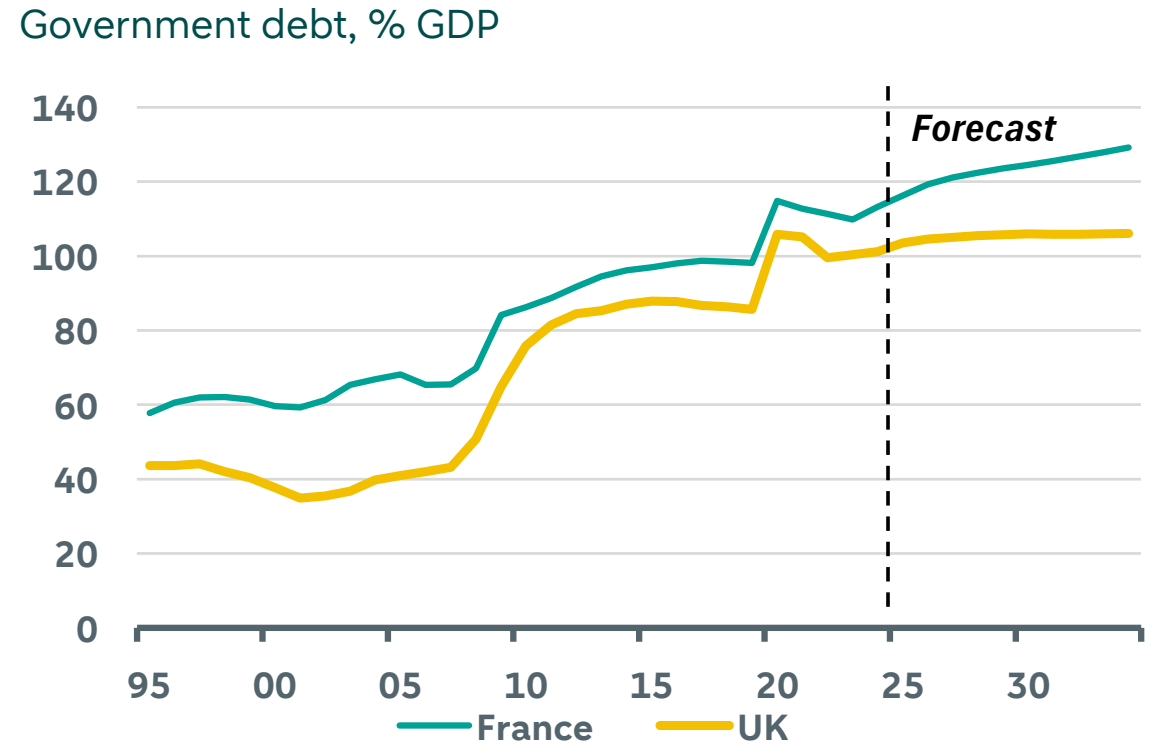
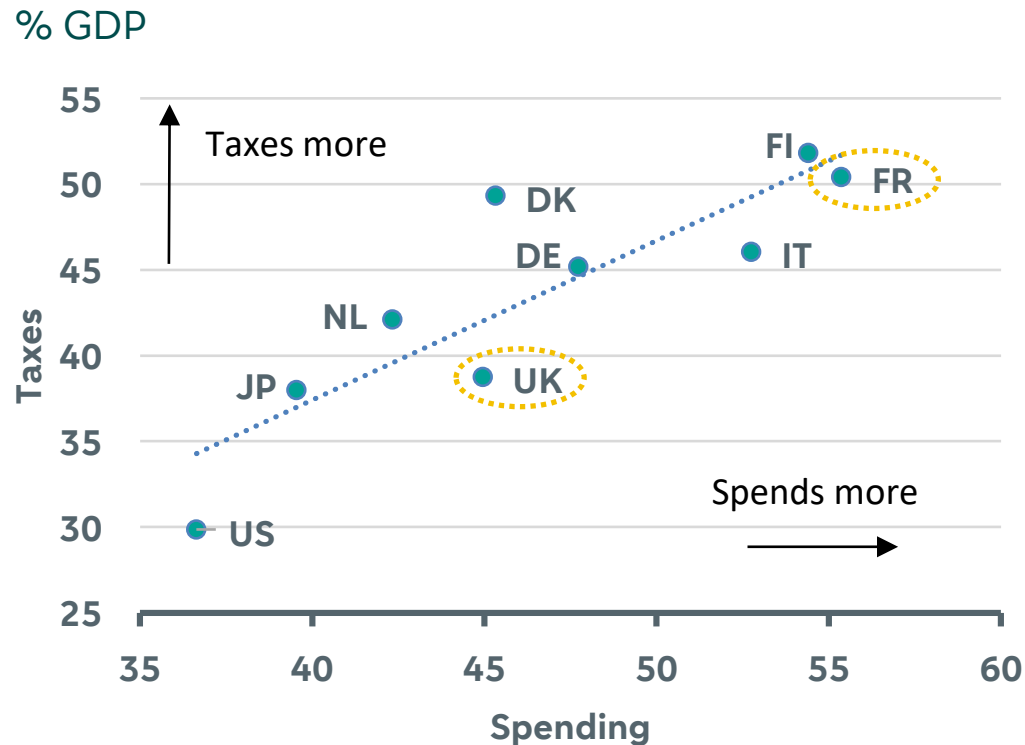
- Burnham previously said the government should not be ‘in hock’ to bond markets
- He later said this comment was “twisted for political reasons,” and has since confirmed his commitment to the current fiscal rules
- Fear of looser fiscal policy initially spooked gilt investors as the local elections results came out
- Burnham could send a strong signal on his commitment by keeping Chancellor Rachel Reeves should he become PM
- Even if he doesn’t, don’t expect a ‘Liz Truss’
- We expect any fiscal giveaways (e.g. raising of personal allowance threshold) to be funded by other tax rises (eg. land value tax)

10y gilt yields, %



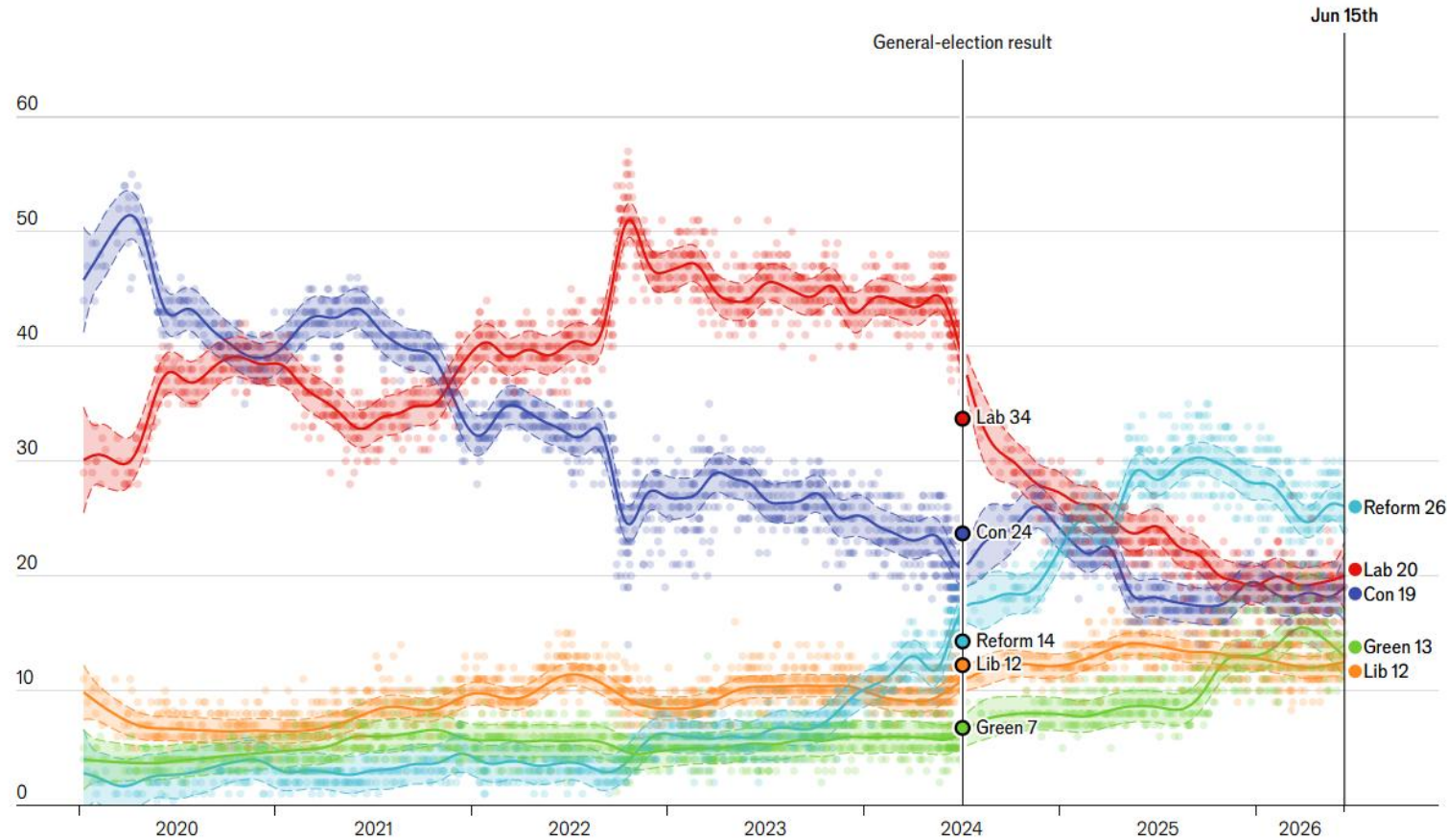
UK has room to raise taxes if it needs

UK has done a lot of fiscal consolidation, and a move to the left could be accommodated by tax rises if needed



First past the post seems no longer fit for purpose

Voting intentions, %



Latest Electoral Calculus MRP results (April 2026):

Party	GE 2024		Predicted Election Result (No TV)		Predicted Election Result (With TV)	
	Votes	Seats	MRP Votes	MRP Seats	MRP Votes	MRP Seats
Reform	15%	5	24%	273	24%	188
CON	24%	121	19%	90	21%	159
LAB	35%	412	18%	77	17%	86
Green	7%	4	16%	71	15%	71
LIB	13%	72	11%	57	11%	61
SNP	3%	9	3%	45	3%	44
Plaid	1%	4	1%	13	1%	17
Other	3%	5	8%	6	8%	6

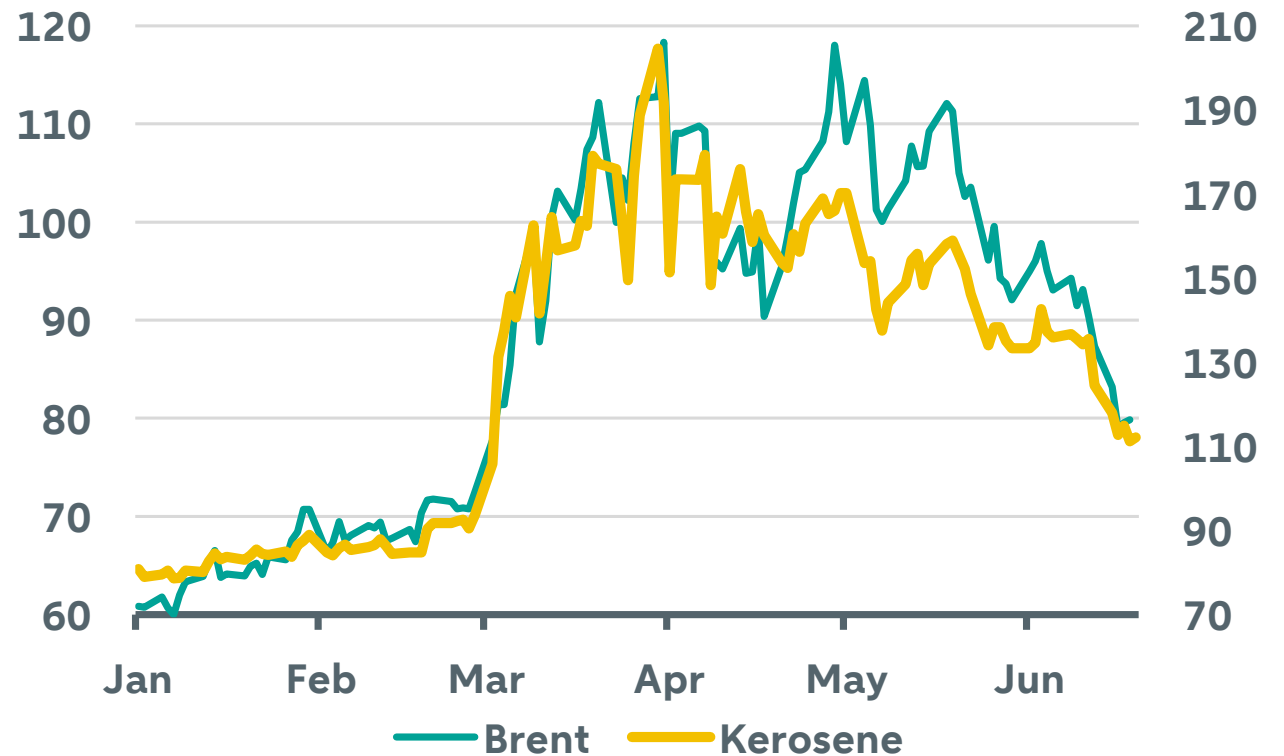
UK Macro Outlook



Will oil prices continue to tumble?

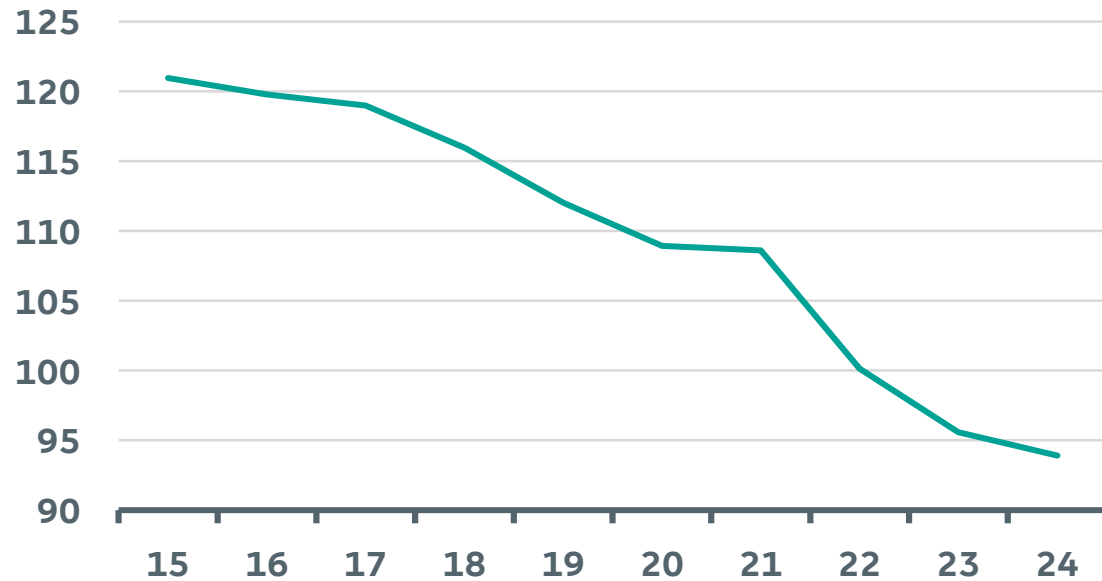
- Iran deal was expected, but still a relief. Oil prices fell in the run up to the deal and naturally fell further on its announcement
- The case for even bigger falls from here: 1) reduced downside risks/lower risk premium, 2) 300 fully laden tankers waiting to exit Hormuz, 3) demand destruction could be more structural (eg. EV shift)
- The case against: 1) Supply deficit likely to persist for some time (deal is fragile, slow Hormuz reopening), 2) even 300 fully laden tankers is still a fraction of the 101 days supply disruption, 3) structural demand destruction not enough to offset need to rebuild inventories

USD per barrel (lhs = Brent, rhs = Kerosene)

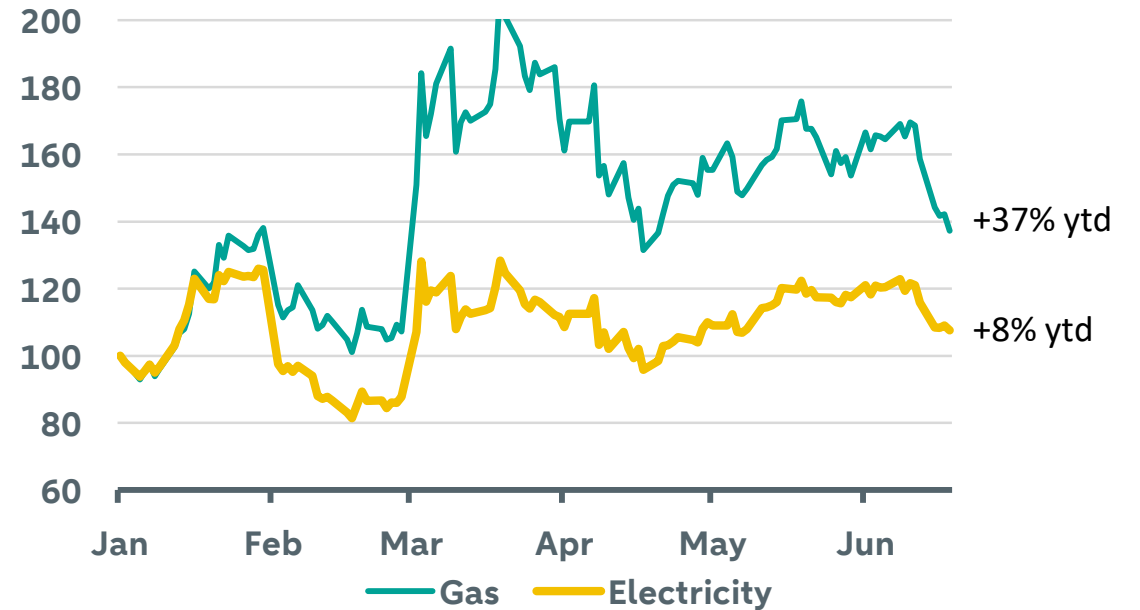


Fossil fuel intensity of the economy has declined

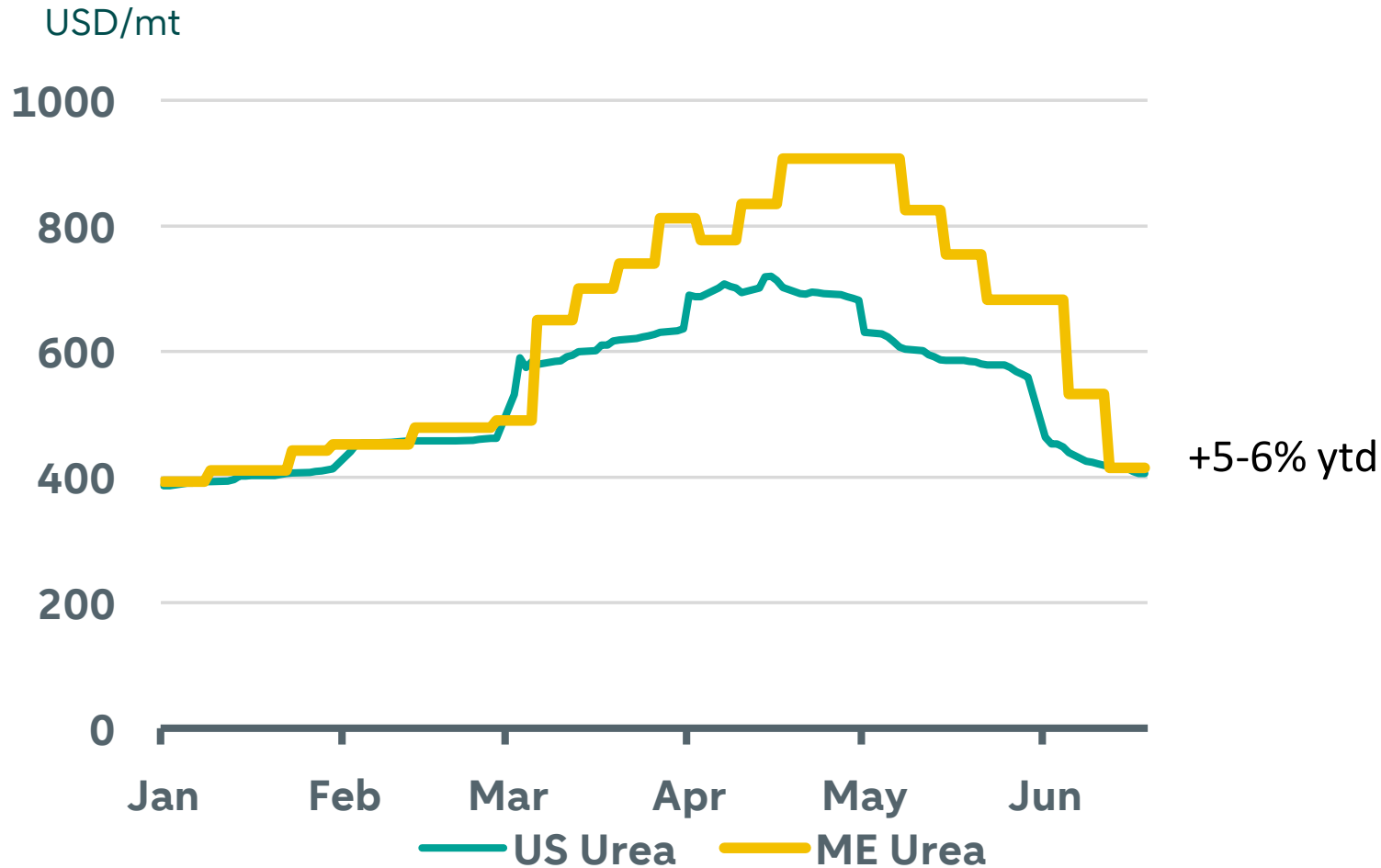
Energy intensity of EU GDP, kg oil/€1000



Index, 100 = 1 January 2026

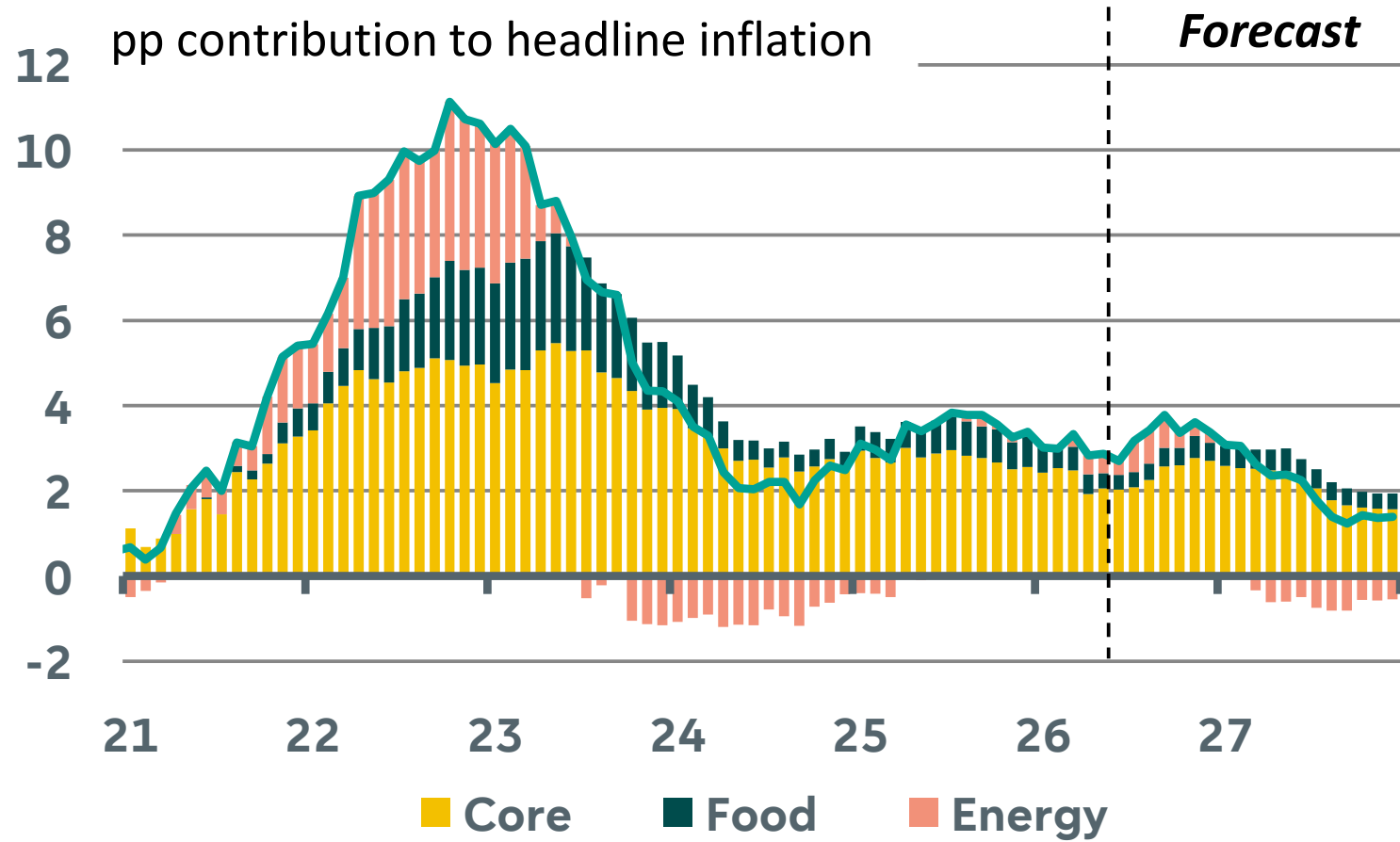


Fertiliser prices have normalised



- Fertiliser prices initially jumped at the outset of the war, but have now come down well of the highs
- Keep in mind that fertiliser typically makes up 15-30% of farm production costs, and 5-15% of the final retail food price
- Key difference with Russia-Ukraine conflict were supply shortages of wheat and sunflower oil from Ukraine

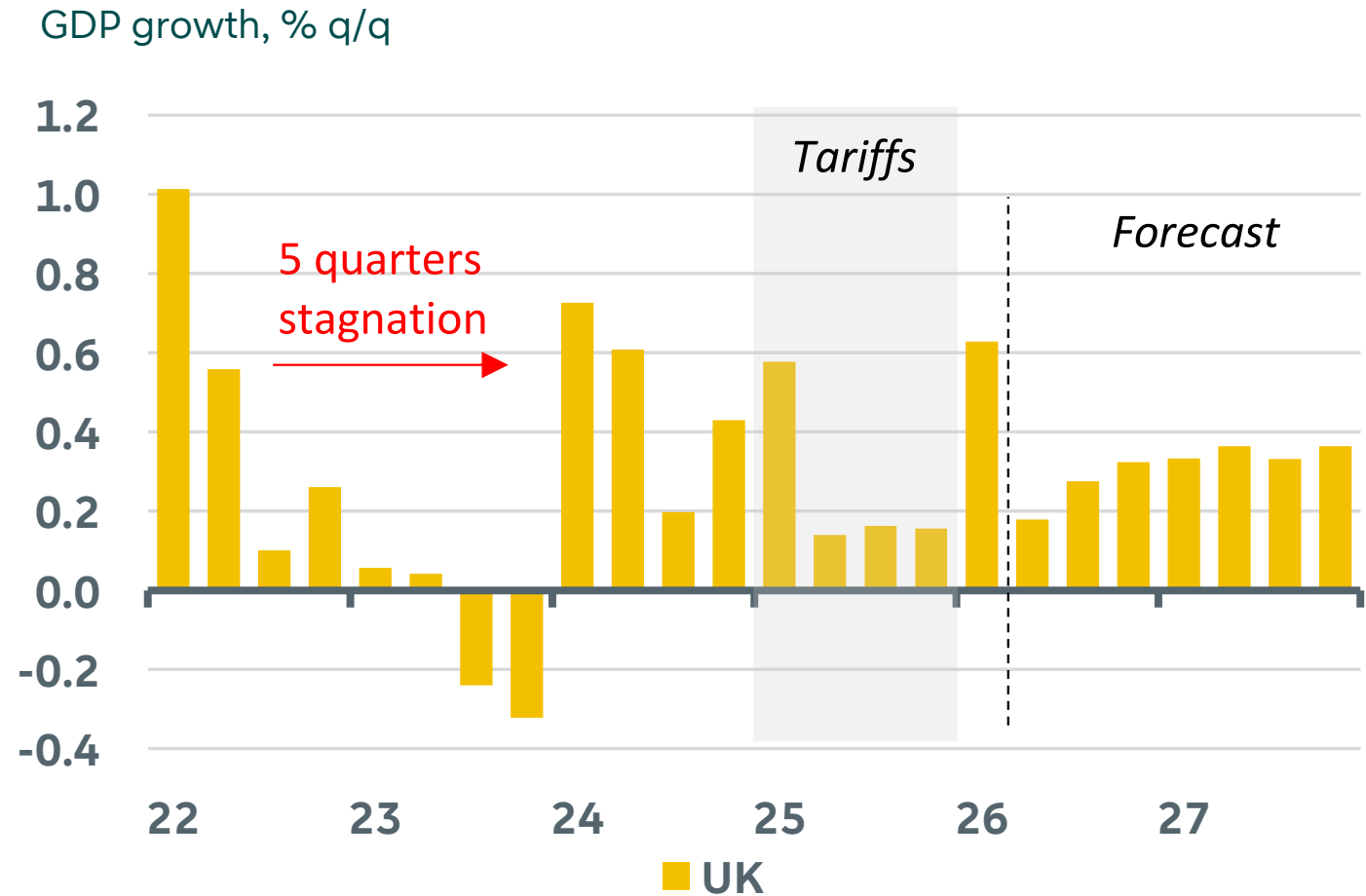
Inflation shock is much smaller than in 2022-23



- Inflation to pick up further despite energy price falls, due to Ofgem price cap lags
- Still, the peak is clearly far lower than in 2022-23

Growth outlook decent; could even see a ‘Burnham Bounce’

- UK GDP data seems to have some residual seasonality, with Q1 tending to be stronger followed by weakness later in the year
- After a more sluggish Q2 we expect growth to gradually pick up. US tariffs are less of a drag, and the energy shock impact is relatively muted
- **Burnham impact:** Assuming some expansion in government spending funded by tax rises, GDP growth should see some modest support – perhaps +0.1-0.2pp in 2027



UK likely to benefit from Germany's fiscal spending spree

Monthly German defence spending, % y/y (3mma)

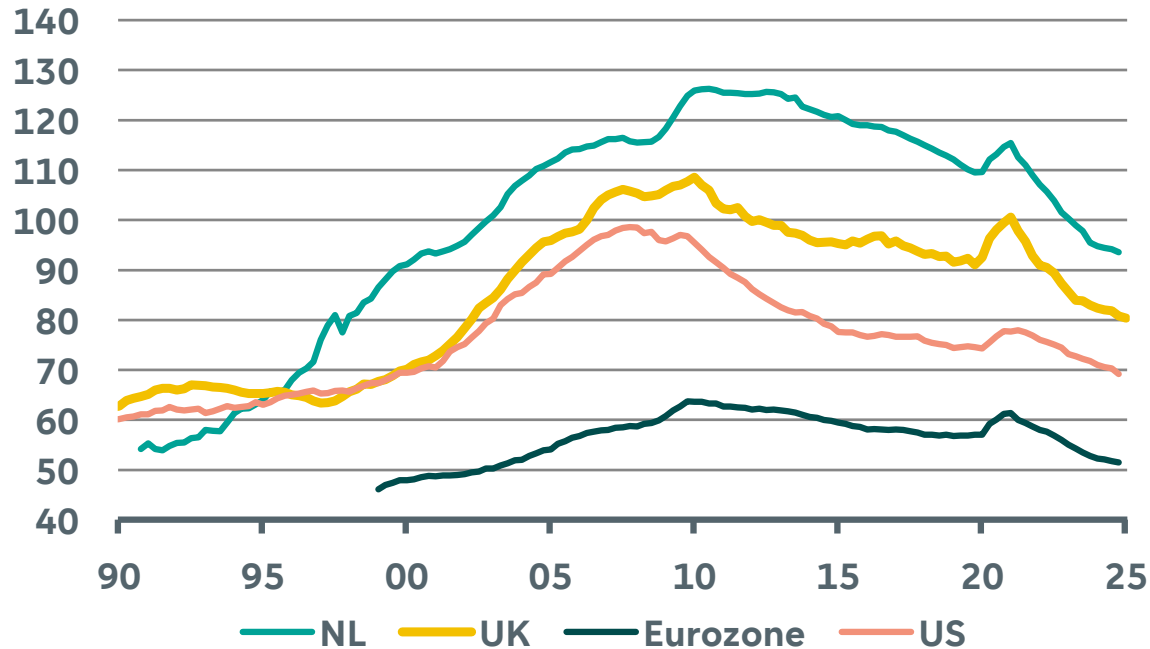


Defence sector, % share of gross value added

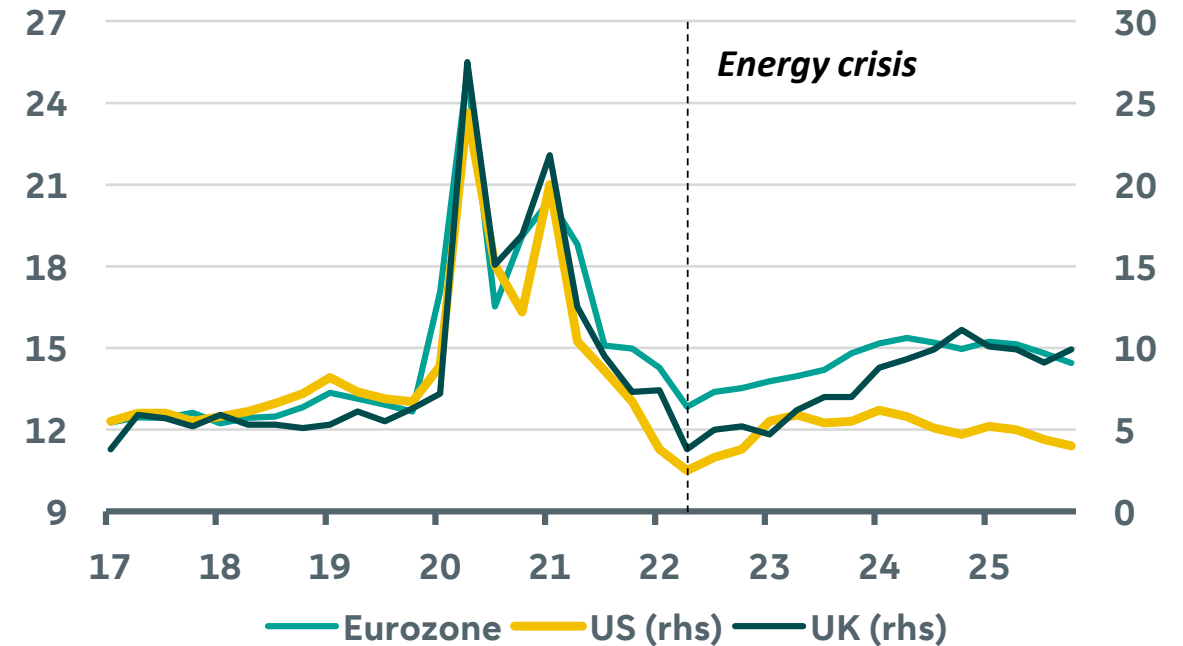


The great deleveraging: Households in solid shape

Household debt, % GDP



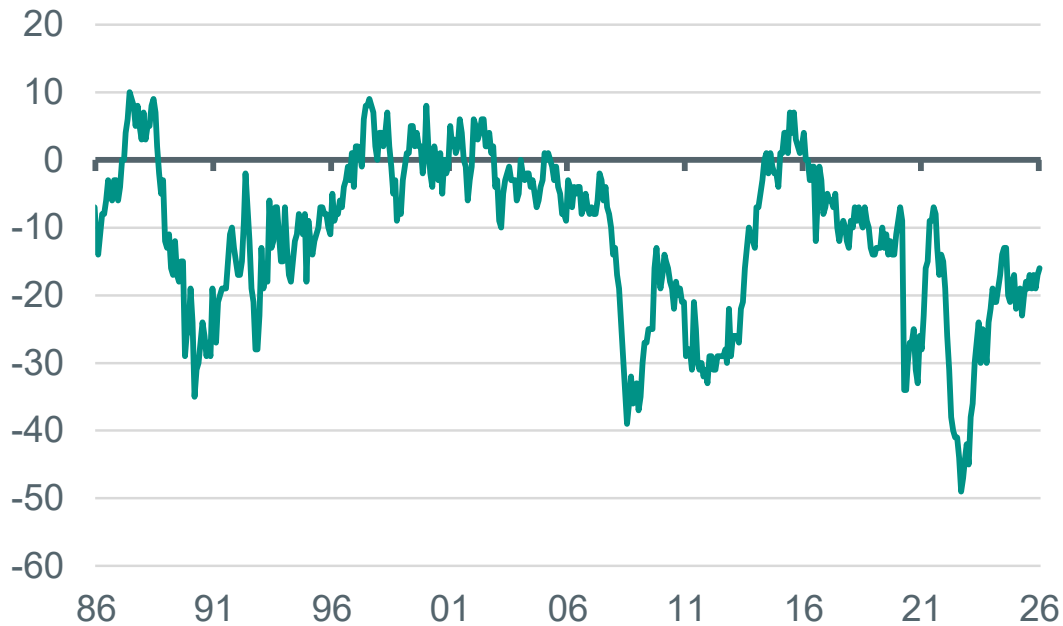
Household savings, % disposable income (US & UK on RHS)



The great deleveraging: Households reluctant to spend

(not so) Happy Brexi-versary: 10 years of negative consumer confidence

GfK Consumer confidence, index



Real retail sales, index 2019 = 100



But consumption *is* growing again

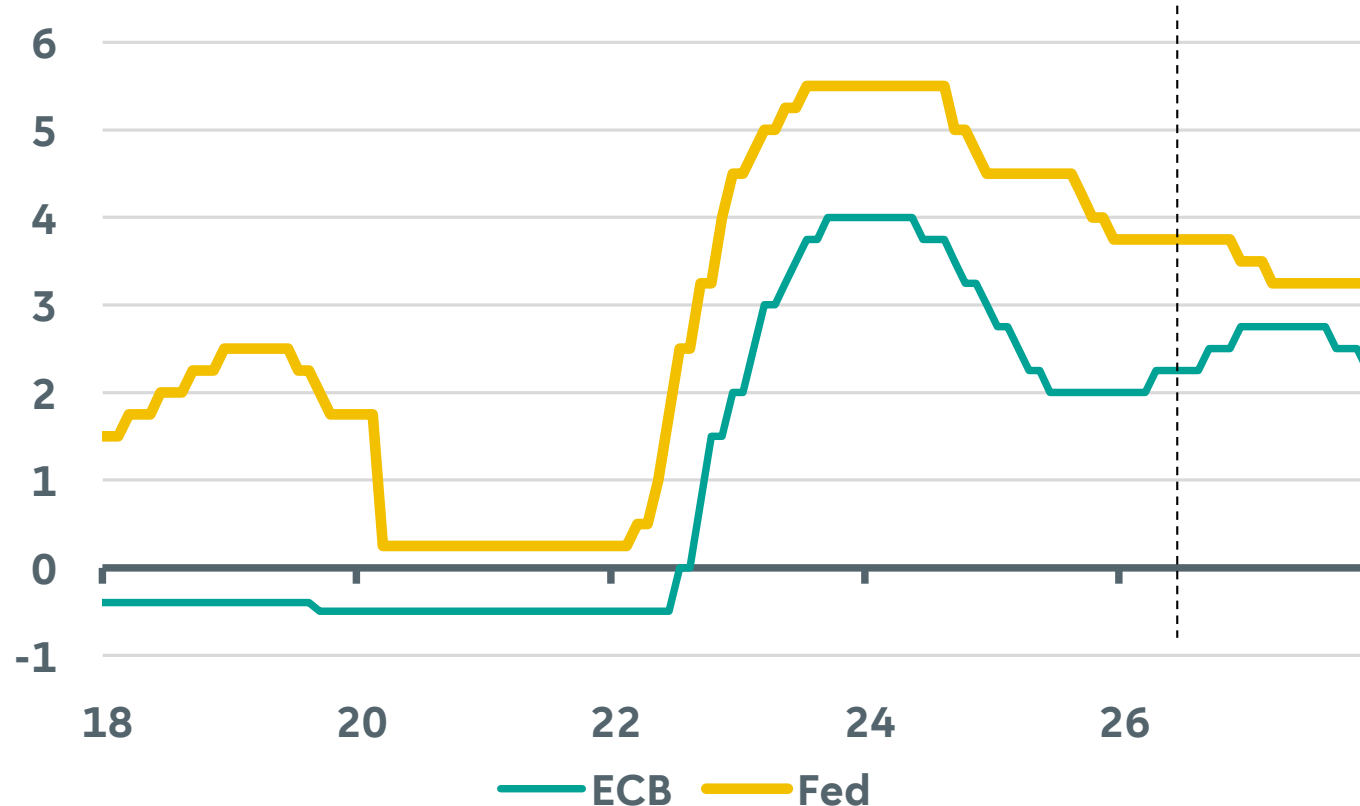
UK real retail sales, % y/y (3mma)



Bank of England: The Long Hold

BoE on a long hold, before restarting cuts in early 2027

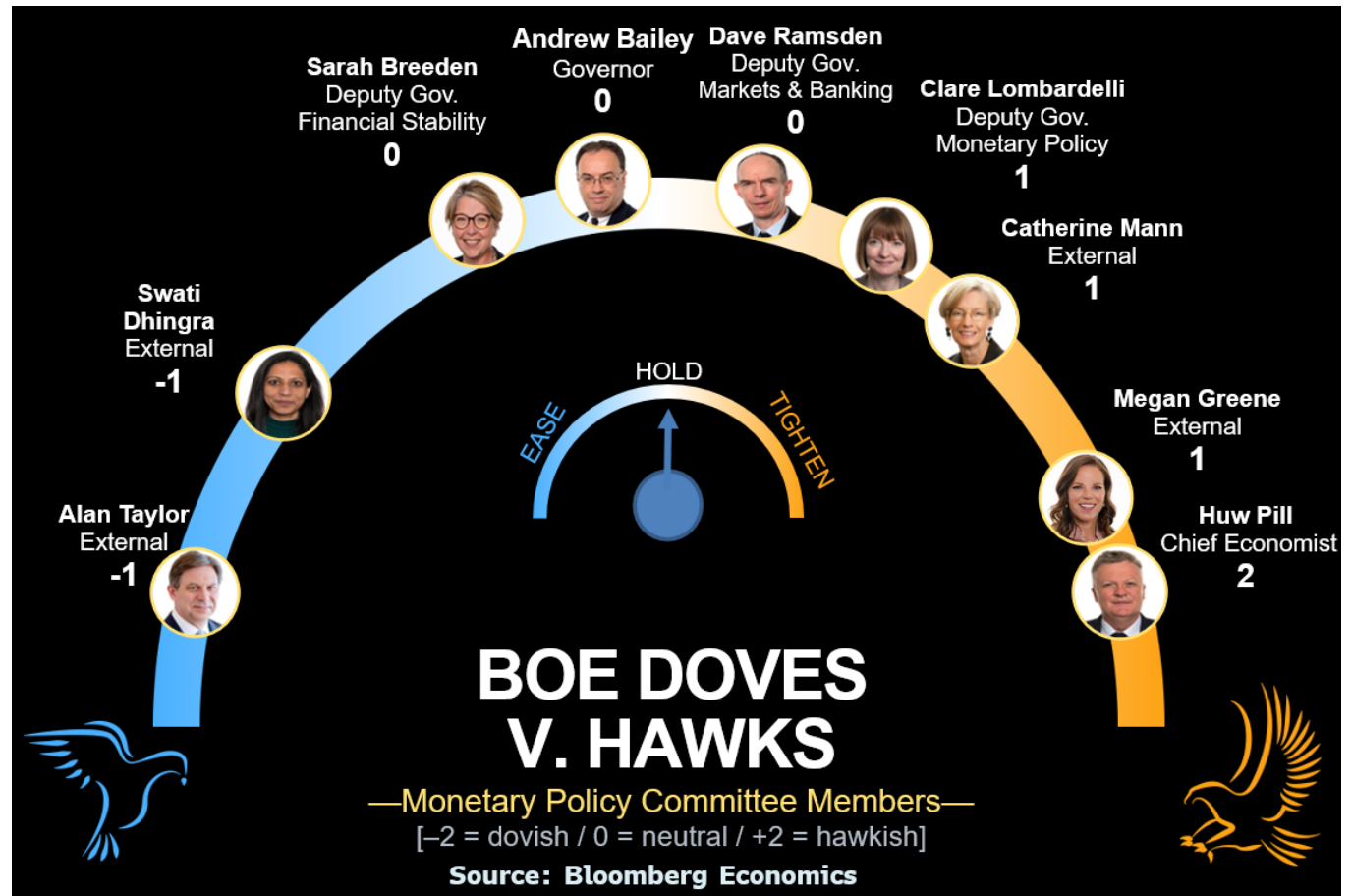
Policy rates, %



- We now expect a long hold by the BoE, given: 1) rates are already somewhat restrictive, 2) the BoE's more dovish reaction function
- Cuts to then resume in early 2027 as energy prices fall back
- BoE seems less worried about inflation expectations given the softening labour market

The numbers just don't add up for a hike

- June meeting: Hawks stayed hawks, doves stayed doves but...
- Centrists leaned subtly more dovish this meeting, especially Dave Ramsden: “I continue to place about equal weight on Scenarios A and B materialising after the summer, **but even less weight than before on Scenario C.**”
- The centrists probably would have sounded even more dovish had they not wanted to keep financial conditions tight
- Without centrist support, a long hold followed by a resumption of cuts seems the most likely path for the BoE



Participation picking up, labour market tightness is easing



Wage growth has finally normalised

- We won't know for sure whether second round effects will materialise until later this year
- But given: 1) falling energy prices, 2) a considerably looser labour market, we think we are unlikely to see the kind of jump in wage growth that we saw in 2022-23

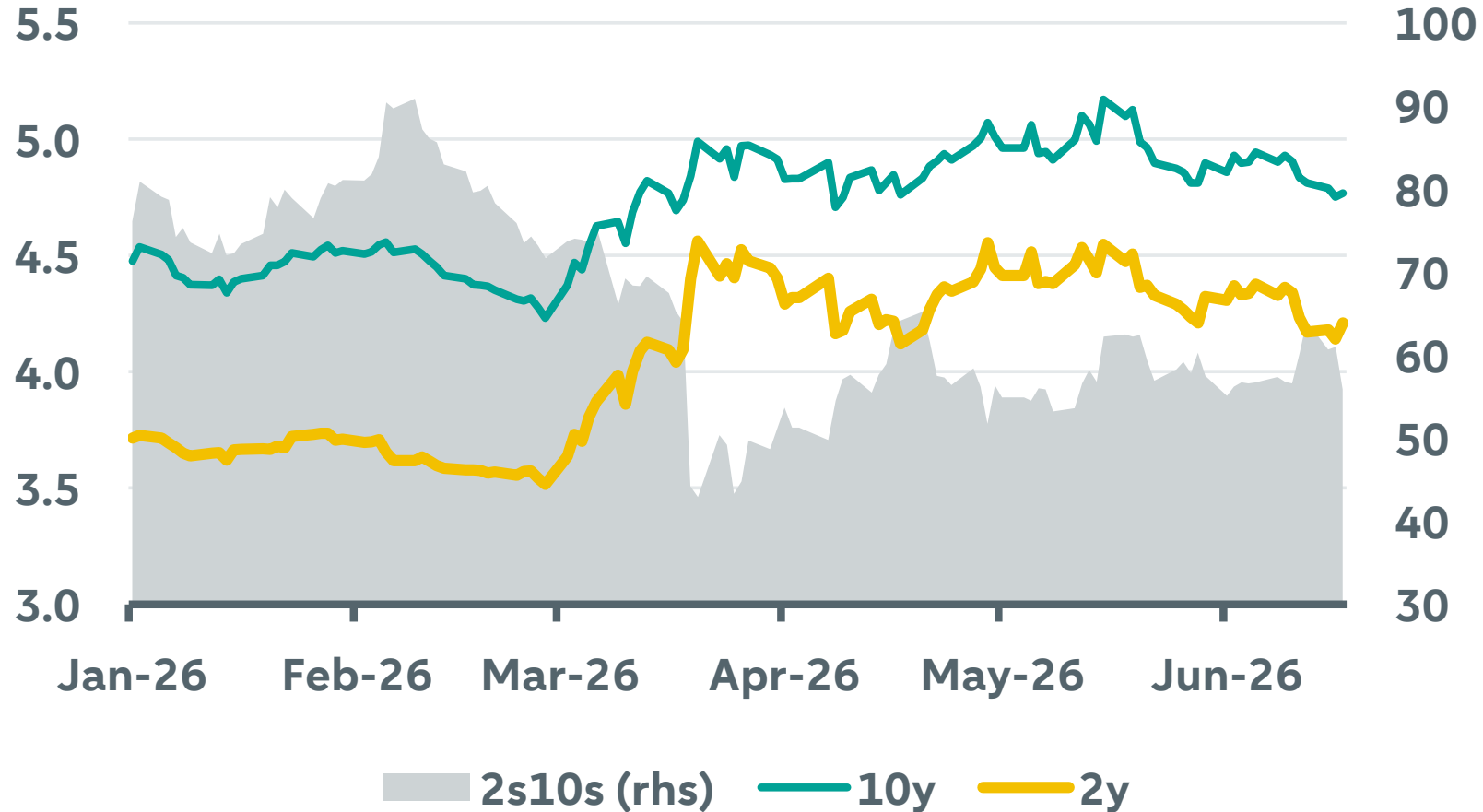


What does it mean for Gilts?

The Iran conflict triggered a rise in yields, bear flattening curves

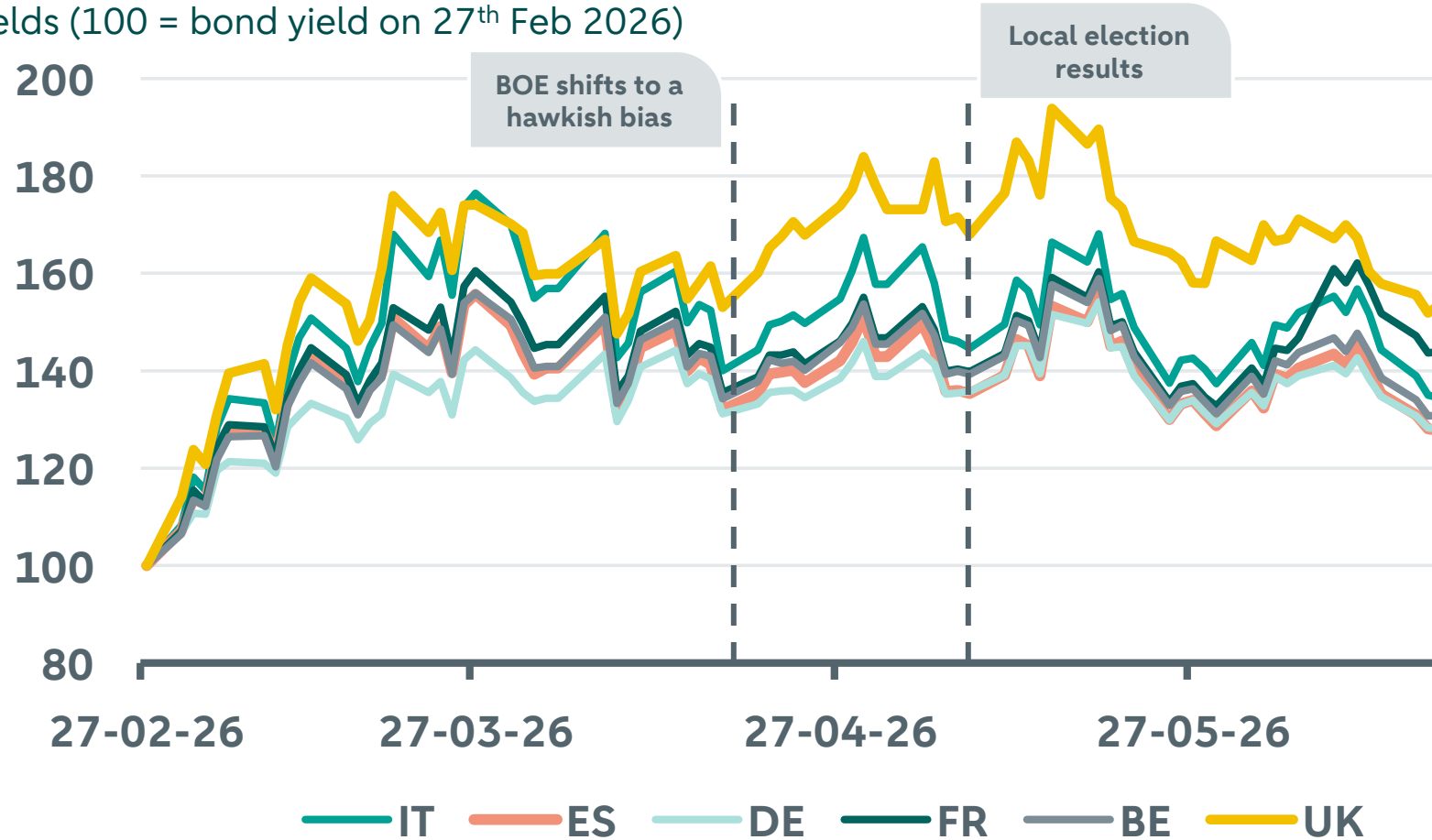
Yields, in %

2s10s, in bps



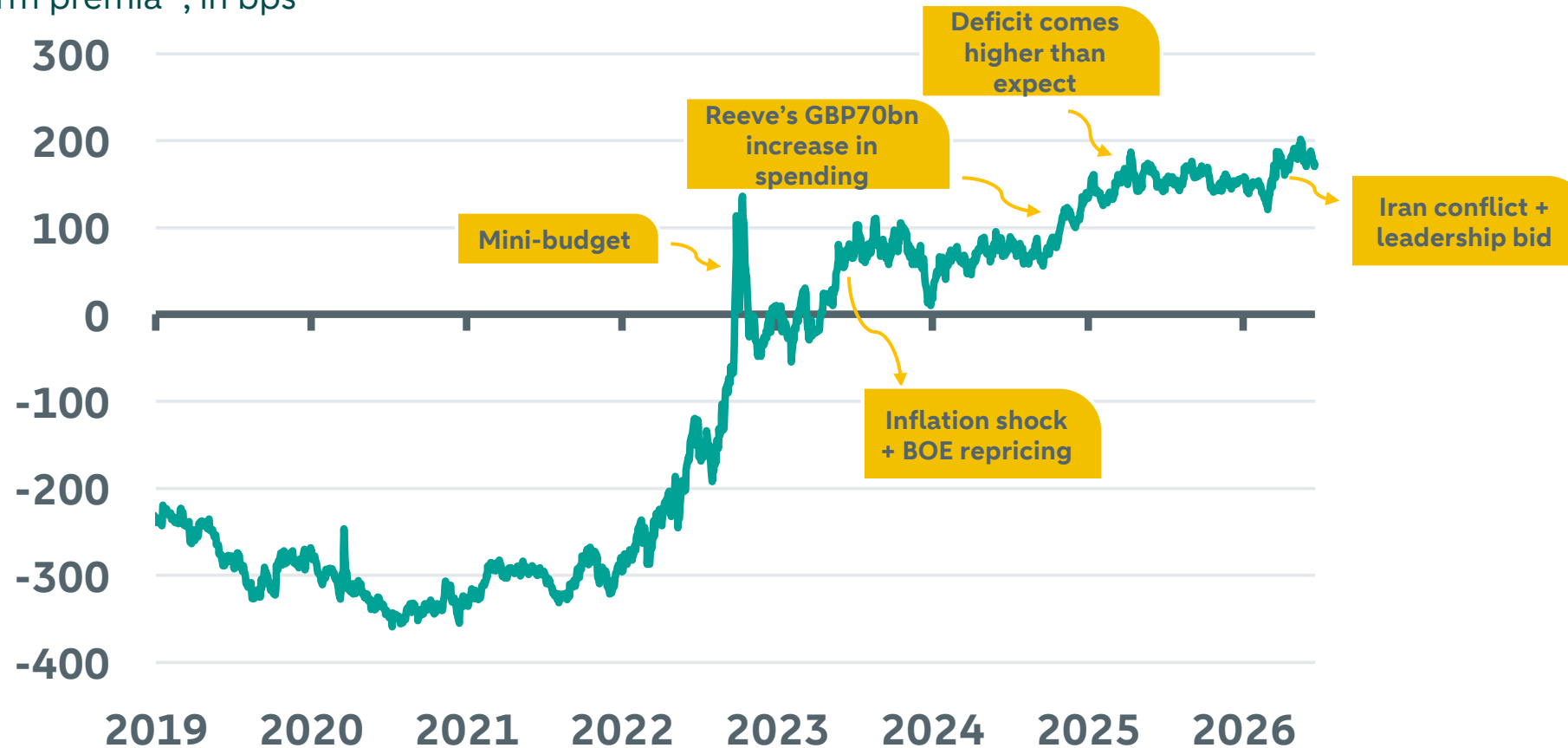
UK bonds have underperformed other EGBs

10y bond yields (100 = bond yield on 27th Feb 2026)



UK term premia in a steady rise trajectory since 2022

10y Term premia*, in bps

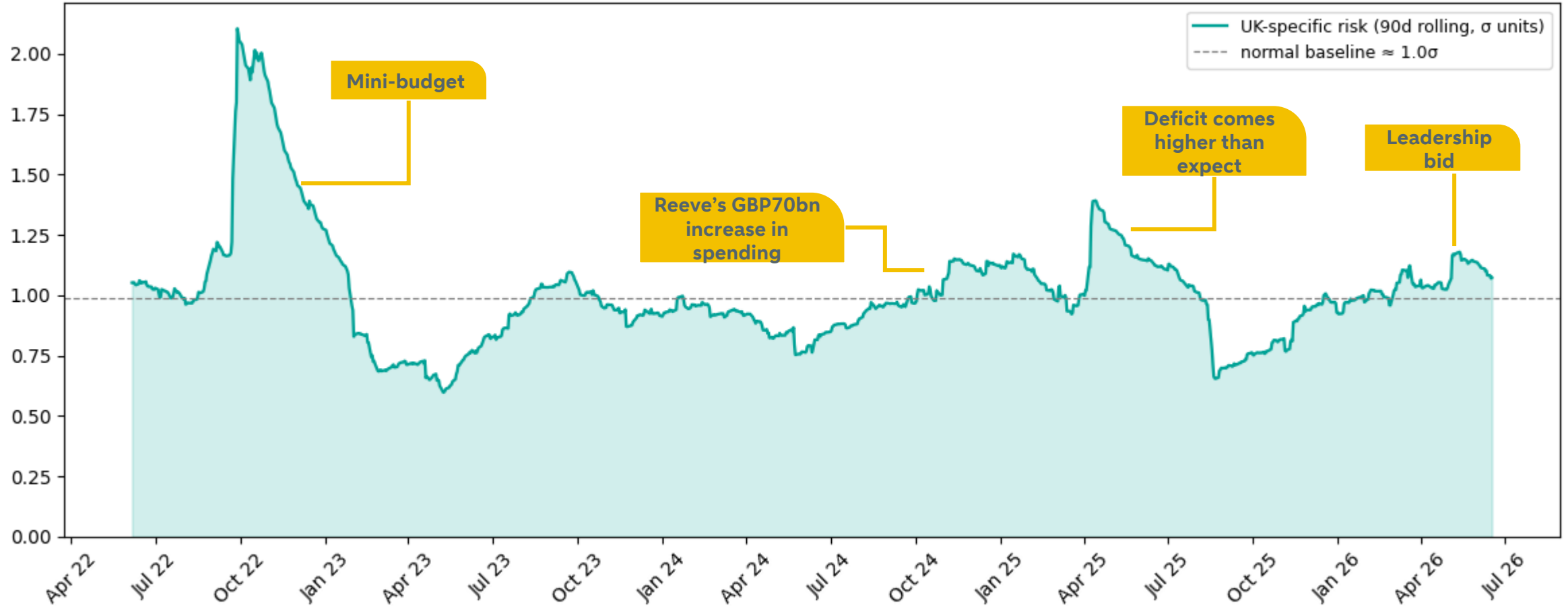


*Calculated as the difference between 10y bond yields and the 5y5y GBP swap

Source: Bloomberg, ABN AMRO Group Economics

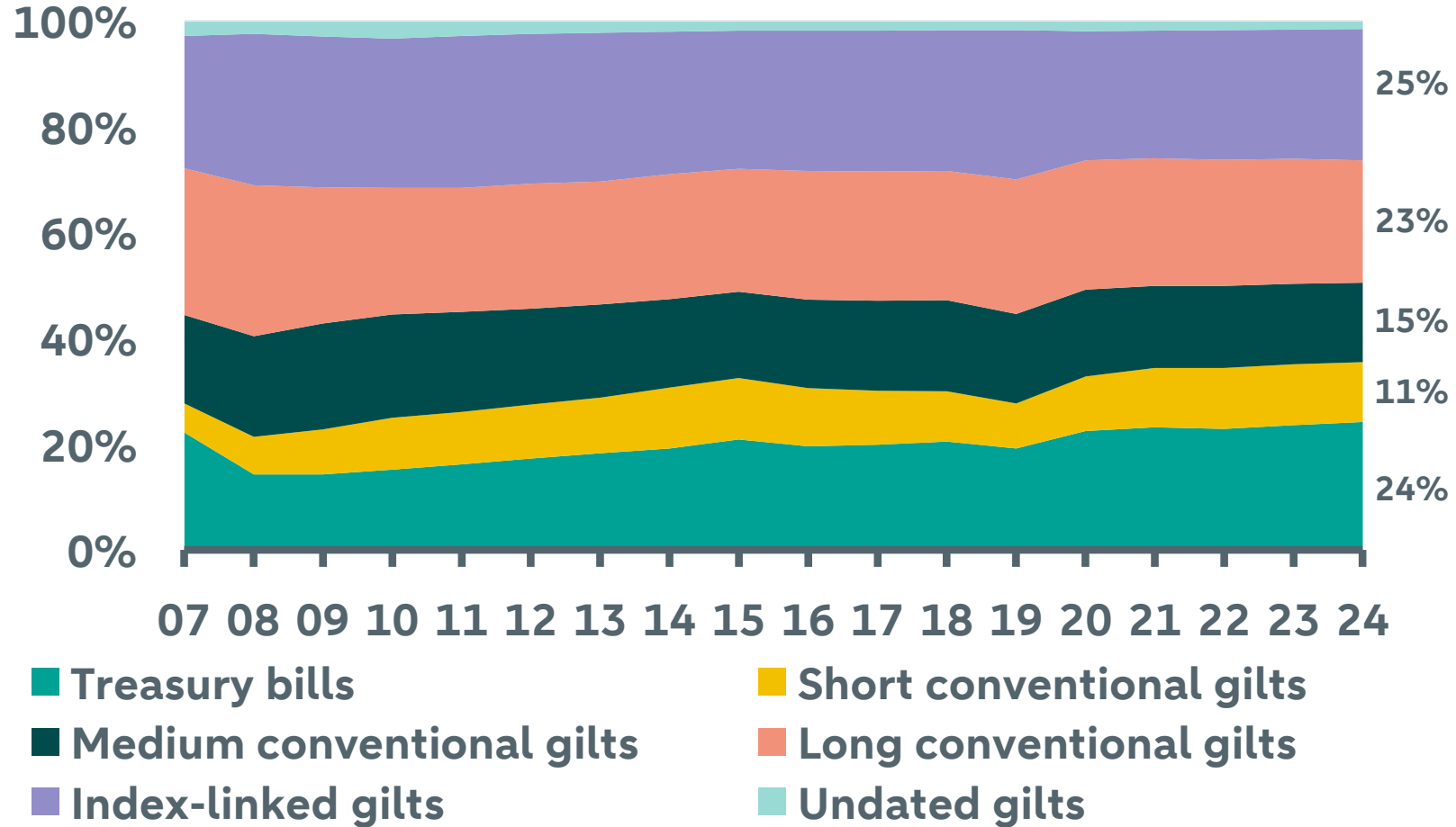
Most UK-specific risk has unwounded

UK-specific risk (“sigma”)

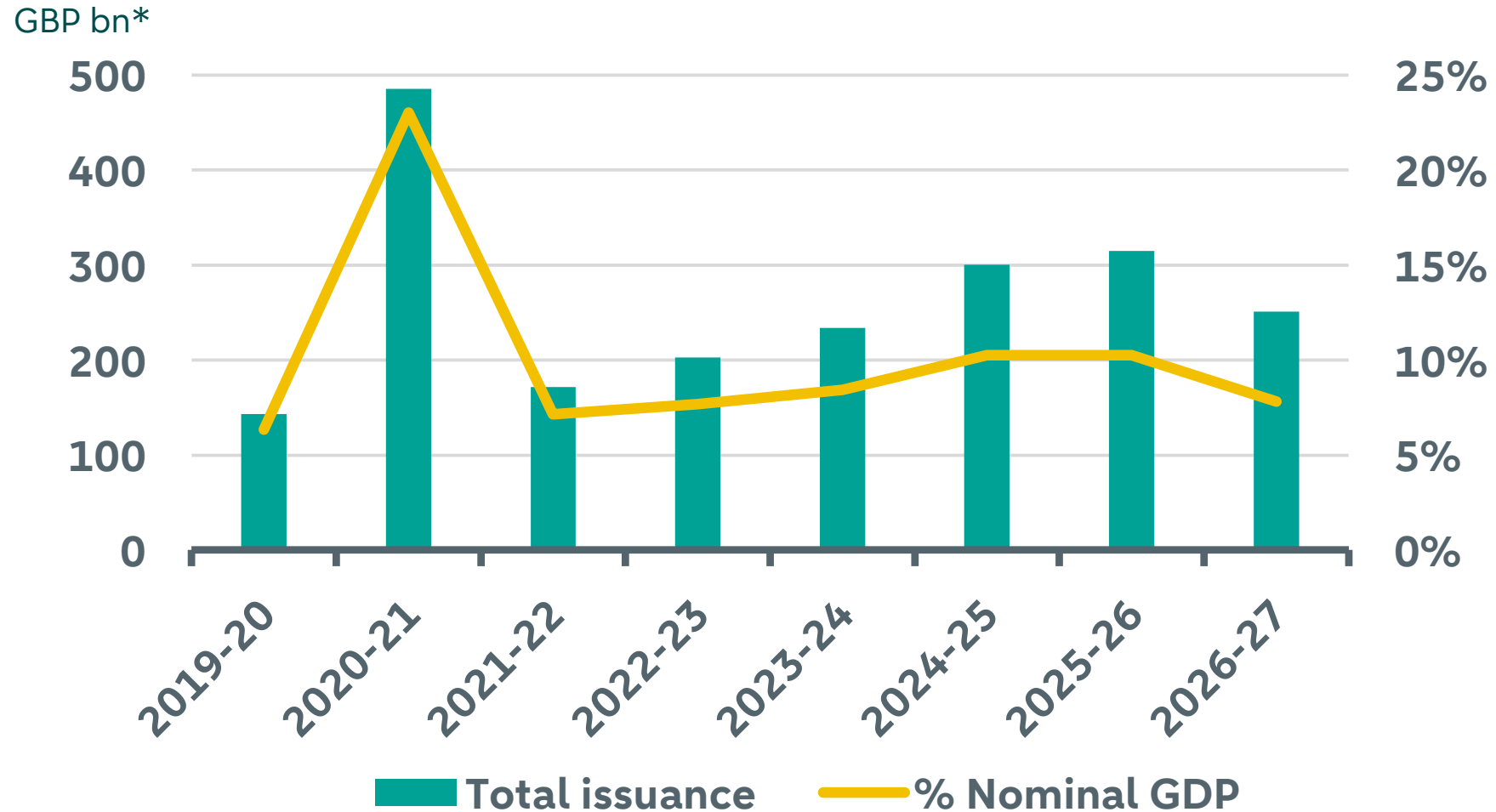


UK is vulnerable due to large share of inflation-linked bonds

% of total outstanding debt



Gilts issuance expected to fall in 2026-27

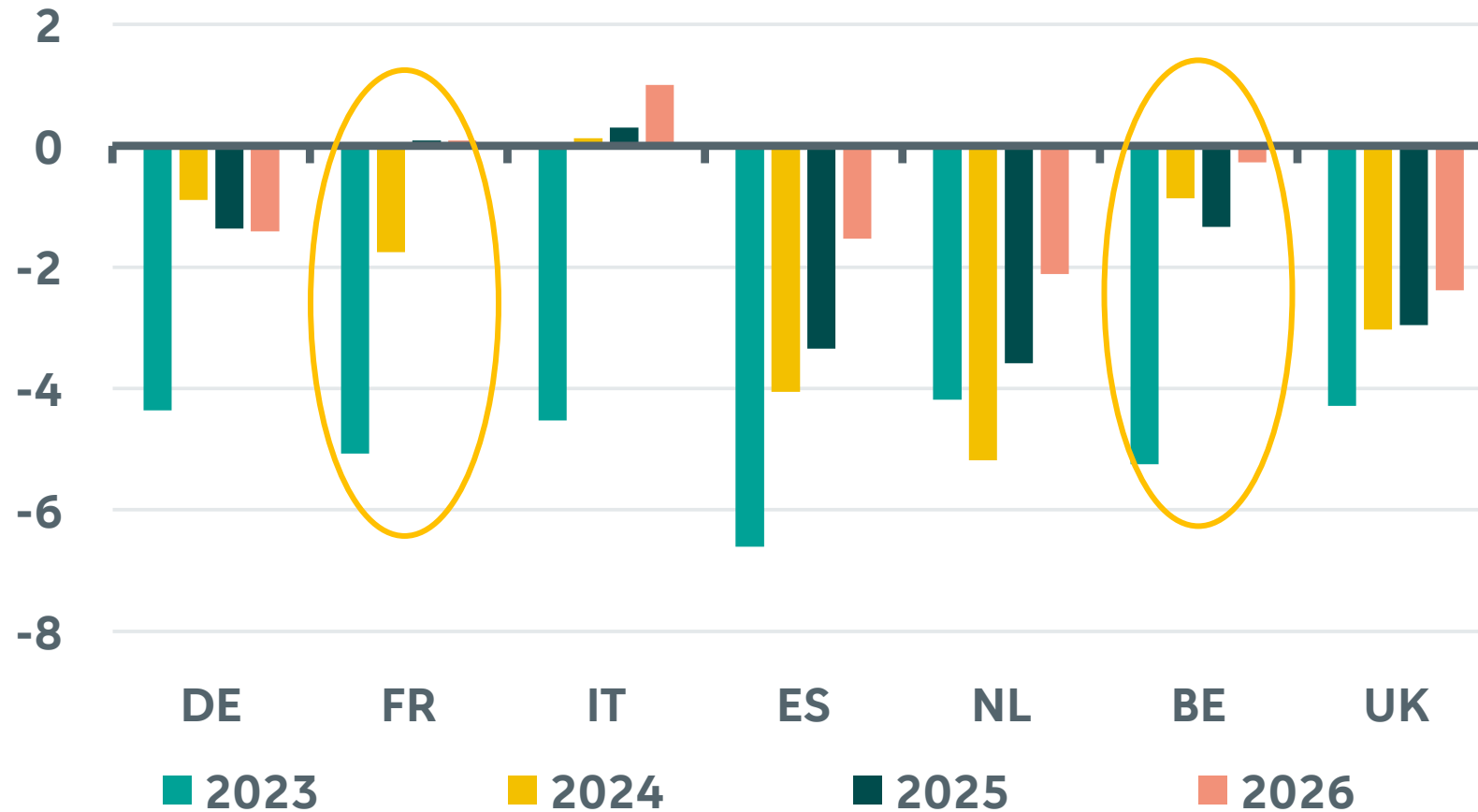


*UK Treasury bills included as net issuance. GDP as per Q2-Q4 of year t and Q1 of year t+1 (e.g. 2024-25 is GDP of Q2-Q4 of 2024 and Q1 of 2025 to follow issuance calendar year).

Source: DMO, ABN AMRO Group Economics

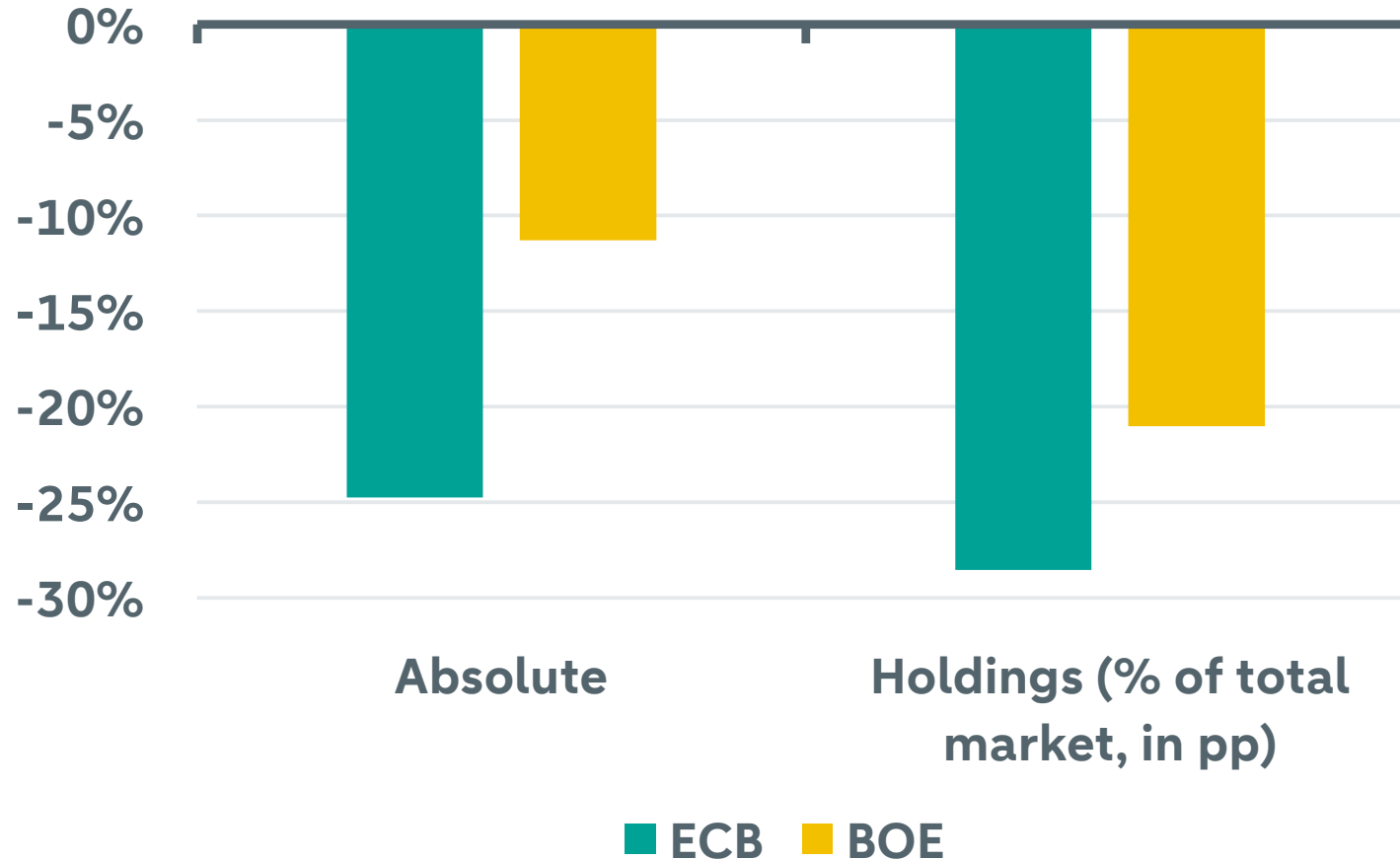
UK not in a “debt spiral” trajectory

r-g (difference between implied rate on debt and nominal GDP growth)



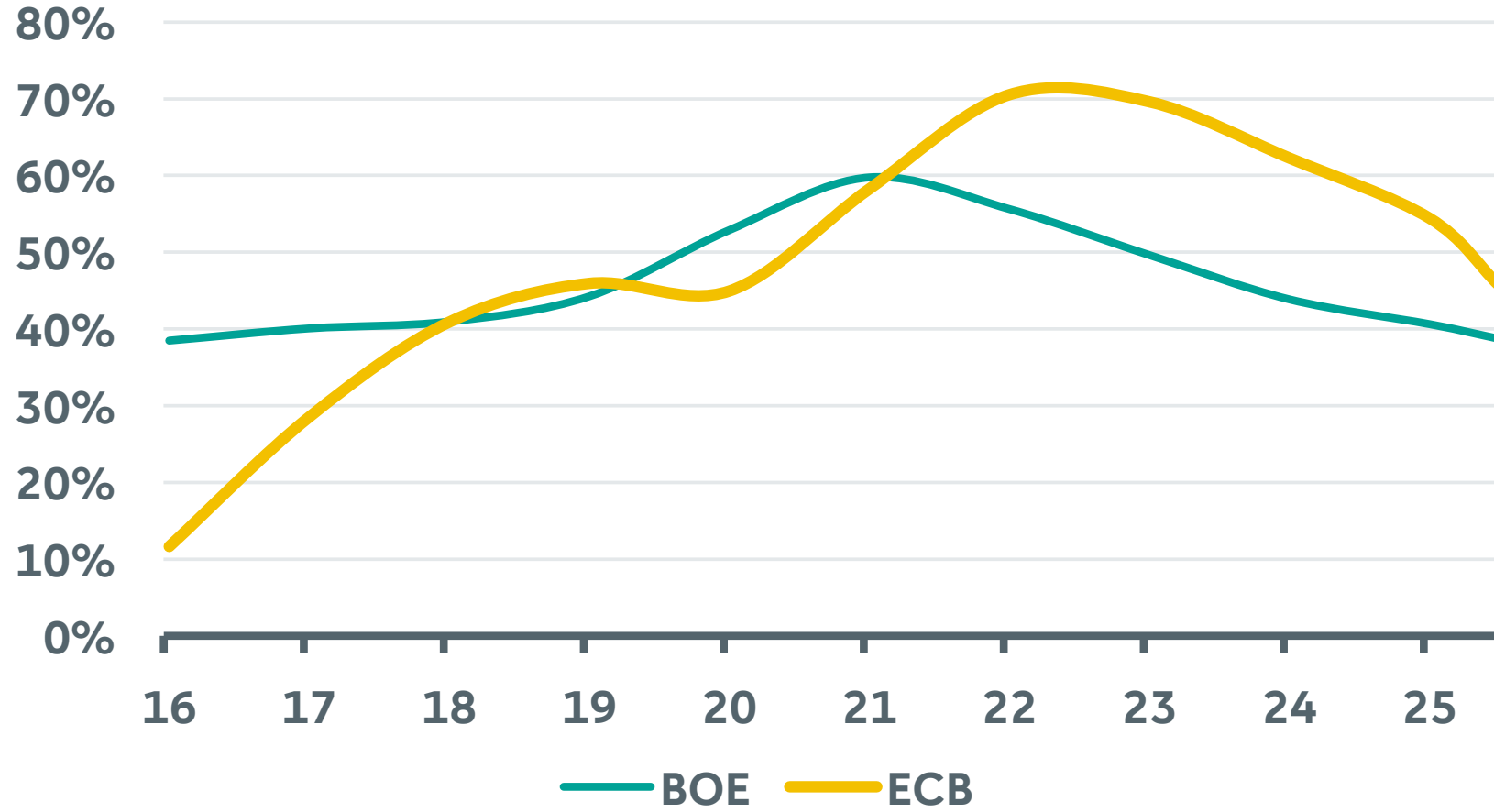
BOE is actively selling bonds, but ECB shrank its portfolio quicker

Change from now since peak



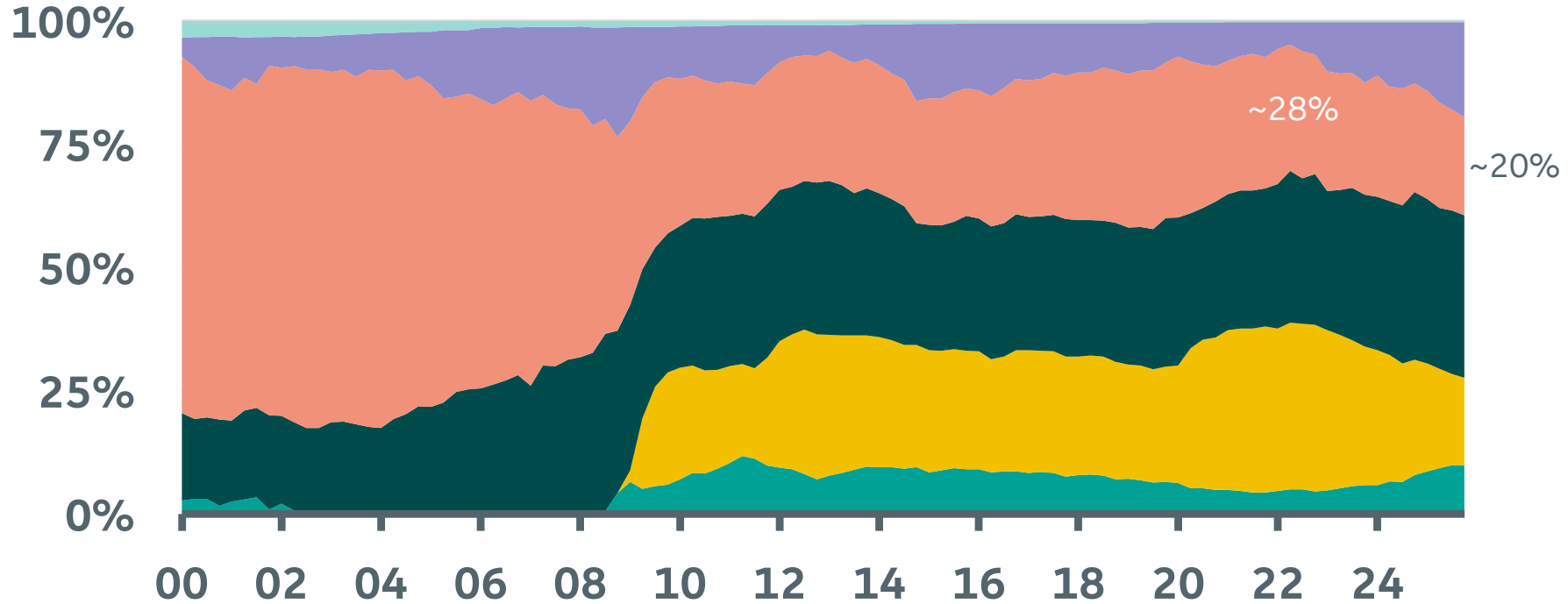
BOE is actively selling bonds, but ECB shrank its portfolio quicker

% holdings of total market



Banks, foreign investors replace BOE; less pension fund holdings

% holdings of total Gilt market



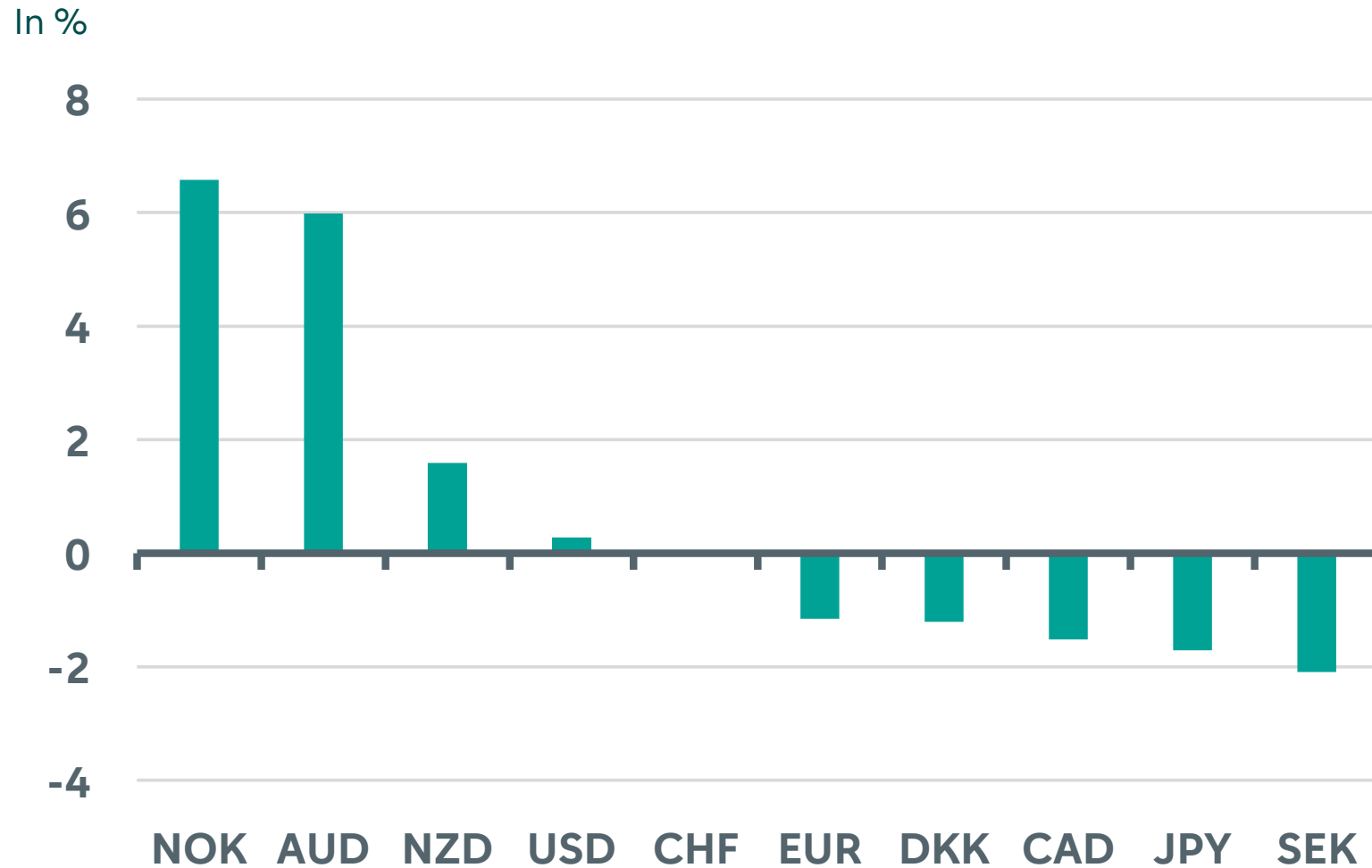
- Other
- Insurance Co. and Pension funds
- BOE
- Other UK FIs
- Non-UK investors
- Monetary FIs (excl BOE)

Conclusion: supportive environment for Gilts going forward

- UK Gilts have underperformed in the past few years on the back of fiscal deterioration and unstable political situation
- But the UK is a better shape than other EU countries, such as France
- A less gloomy outlook for the UK could support a falling term premia...
- ...Further assisted by reduced issuance on the back of lower deficits
- BOE easing cycle starting ahead of the ECB will also be supportive for yields, particularly at the front-end
- We do not see the BOE's QT as a significant driver for higher bond yields
- We expect some volatility in the near-term due to political uncertainty, but the long-term outlook is supportive for Gilts yields and spreads

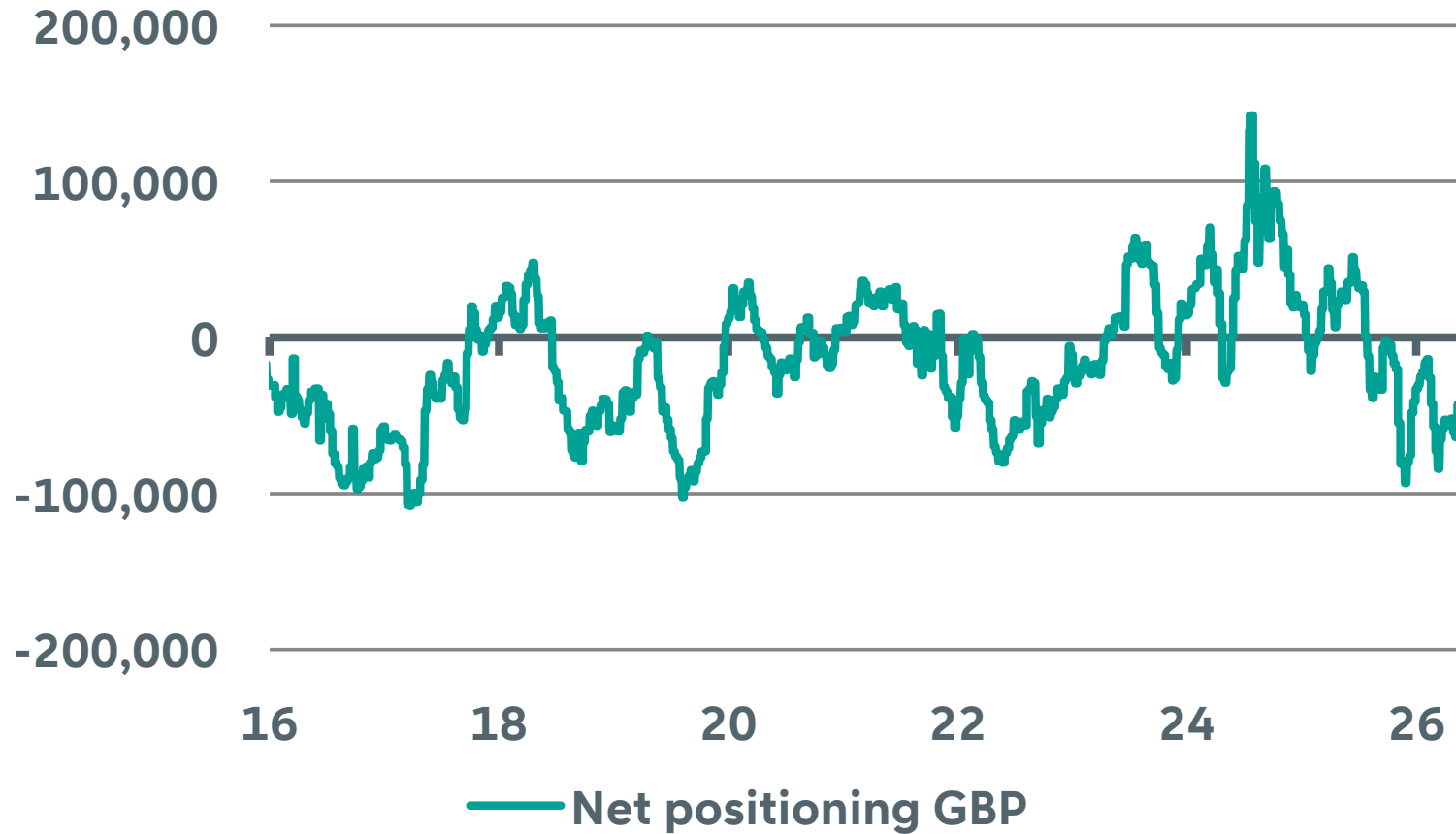
What does it mean for the sterling?

Performance sterling so far this year

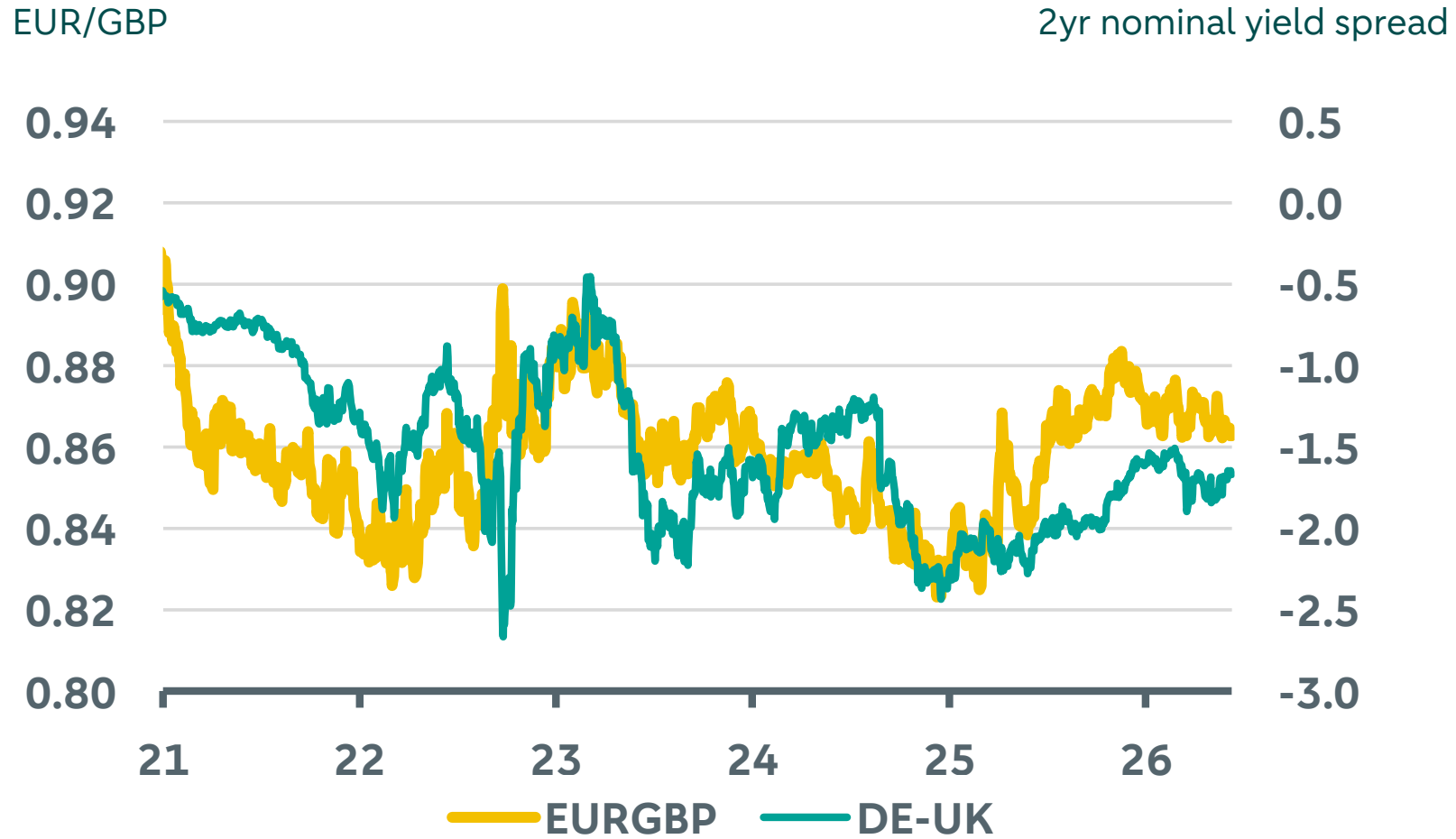


Speculators are short sterling

Number of contract, net-positioning futures market



EUR/GBP is sensitive on rate spread



Our sterling view

- Sterling was resilient during the Iran conflict, probably because at that time BoE was less dovish than the ECB
- But political uncertainty weighted on sterling
- Over time the ECB became more hawkish and the Bank of England more dovish
- This resulted in a change in view about sterling:
 - We maintain an upward bias of sterling versus US dollar reflecting overall weakness of the dollar
 - But we revised down sterling versus euro
 - Year-end forecasts 1.36 for GBP/USD and 0.88 for EUR/GBP
- We think that political uncertainty could have some negative effect on sterling but expect this to be shortlived



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