

Marked hardening in market rate expectations

Equity markets declined yesterday, with the Euro Stoxx 50 down by 1.0%, and the S&P 500 falling by 0.6%. Stock markets struggled as investors scaled back expectations for rate cuts this year. Above consensus UK CPI inflation, strong US retail sales, and continued pushback from ECB officials against market pricing for early policy easing this year, saw futures contracts harden by 10-20bps.

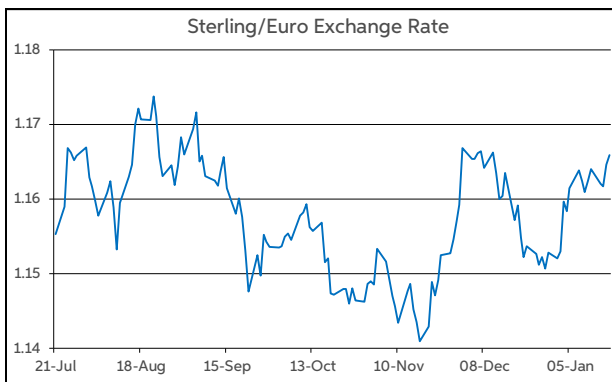
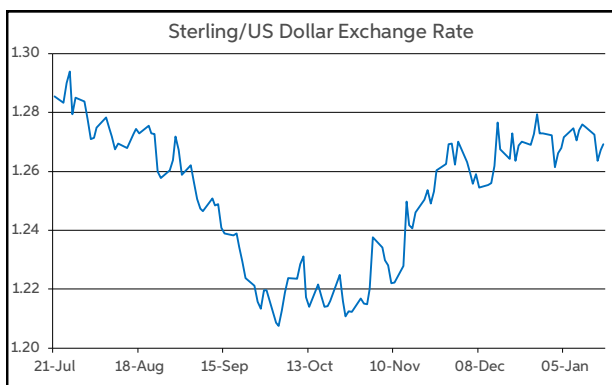
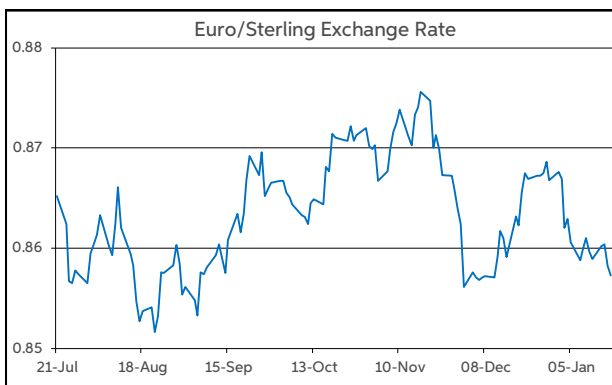
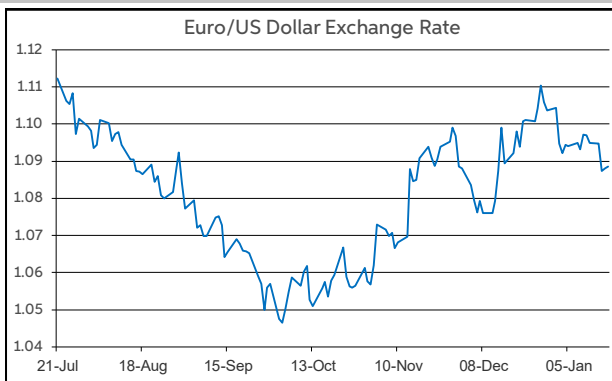
UK headline inflation rose to 4% in December, while the core rate remained at 5.1%. Meanwhile, US retail sales rose by more than forecast in December. Furthermore, the control group sales measure was revised higher for November, and was much stronger than expected in December. The data suggest the US economy remained in robust health in Q4. Elsewhere, ECB President Lagarde acknowledged that the ECB may cut rates in the summer, but hinted that policy easing before then is unlikely.

Against this backdrop, investors have reduced bets that the Fed will cut rates in March, a first ECB rate cut is now no longer fully priced in for April, and the BoE is no longer expected to ease policy in May. In total, futures contracts indicate rate cuts of 140bps in the US, 135bps in the Eurozone, and just 105bps in the UK by year end.

2-year bond yields rose by 5-20bps, led higher by UK Gilts, amid the firming in futures contracts. The outsize move in UK yields provided a supported backdrop for sterling. This sees EUR/GBP open today near 85.7p, its lowest level since the start of December. Elsewhere, EUR/USD is in the top half of \$1.08-1.09.

Later today, the December ECB monetary policy meeting minutes are due. However, unless markets can glean any new information from them, the release may not impact the euro.

Daniel Noonan, Economist, AIB



Today's Opening FX Rates			
		% Change	
		Day *	End 2023
EUR/USD	1.0884	0.19	-1.38
EUR/GBP	0.8575	-0.46	-1.07
GBP/USD	1.2695	0.67	-0.27
GBP/EUR	1.166	0.47	1.08
USD/JPY	147.81	0.16	4.79
EUR/JPY	160.92	0.37	3.40

* v Previous Day's European Open

See Next Page for More Rates

Opening Interest Rates						
	Base Rate	Money Market		Swap Rates		
		1-Mth	3-Mth	1-Yr	2-Yr	5-Yr
USD	5.38	5.45	5.56	5.05	4.48	4.02
EUR	4.50	3.89	3.89	3.56	3.00	2.66
GBP	5.25	5.19	5.21	4.89	4.56	4.05

All rates quoted are indicative market rates

See Next Page For More Rates & Charts

FX Spot	Karl Cooke Shane Gargan	FX Options	Mark Tuite	Reuters Phone	AIBG.I 00353-1-7724018	Morning Comment	John Fahey john.j.fahey@aib.ie
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Opening Levels

Thursday 18 January 2024
08:01 am



Euro

EUR/GBP	0.8575
EUR/USD	1.0884
EUR/JPY	160.93
EUR/SEK	11.3713
EUR/DKK	7.458
EUR/NOK	11.4214
EUR/CHF	0.9414
EUR/AUD	1.6607
EUR/HKD	8.5122
EUR/CAD	1.4688

Sterling

GBP/EUR	1.1658
GBP/USD	1.2693
GBP/CAD	1.7129
GBP/NZD	2.0759
GBP/JPY	187.63
GBP/SEK	13.2584
GBP/DKK	8.6953
GBP/NOK	13.3235
GBP/CHF	1.0978
GBP/AUD	1.9365

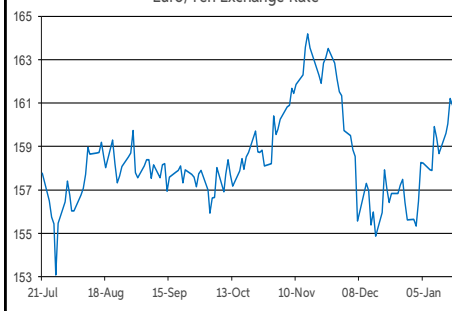
Dollar

USD/JPY	147.82
USD/CAD	1.3494
USD/CHF	0.8647
USD/CNY	7.1965
USD/BRL	4.9349
USD/RUB	88.6
USD/INR	83.127
AUD/USD	0.6554
NZD/USD	0.6114

Dollar/Yen Exchange Rate

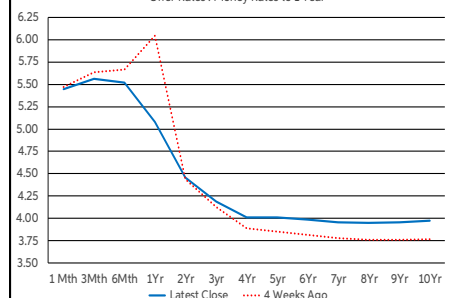


Euro/Yen Exchange Rate



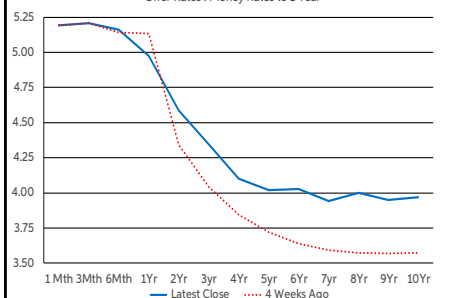
US Swap Curve

Offer Rates : Money Rates to 1 Year



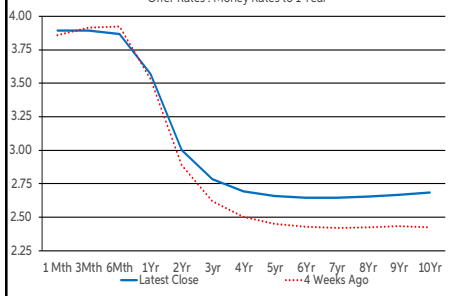
UK Swap Curve

Offer Rates : Money Rates to 1 Year

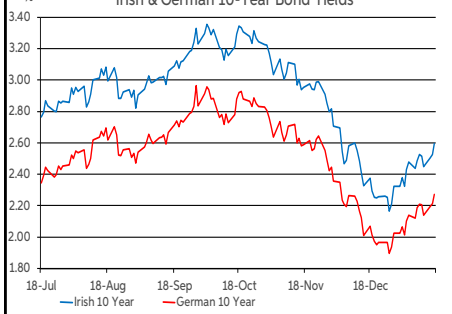


Eurozone Swap Curve

Offer Rates : Money Rates to 1 Year



Irish & German 10-Year Bond Yields



Debt Markets

	Close	Change bps		
		Day	4 Weeks	End 23
10 Year Yield %				
US	4.11	+5	+25	+24
Germany	2.27	+6	+30	+25
UK	3.98	+18	+46	+45
Ireland	2.62	+5	+34	+23
Belgium	2.92	+7	+32	+24
France	2.82	+7	+34	+26
Italy	3.92	+9	+31	+22
Spain	3.25	+8	+33	+26
Portugal	3.03	+8	+35	+24
Greece	3.38	+9	+30	+31
5 Year Swap %				
US	4.01	+10	+20	+22
Eurozone	2.66	+7	+22	+23
UK	4.02	+17	+30	+37
2 Year Swap %				
US	4.46	+16	+6	+12
Eurozone	3.00	+8	+12	+21
UK	4.59	+22	+25	+32
10 Year Government Bond Spreads to Benchmark bps				
Ireland	34	-1	+5	-1
Belgium	65	+1	+2	-0
France	54	+1	+4	+1
Italy	165	+3	+2	-3
Spain	98	+2	+4	+1
Portugal	76	+2	+5	-0
Greece	111	+3	+0	+6

Commodities

	% Change			
	Close	Day	4 Weeks	End 23
Brent Oil	77.88	-0.52	-2.28	+1.09
West Texas Oil	71.65	-0.17	-1.90	-1.27
Gold \$	2005.7	-1.08	-1.16	-2.76

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