Morning Comment

AIB Treasury Economic Research Unit



Thursday 21 September 2023 07:23 am

Fed leaves policy on hold. BoE in focus today

Throughout the European session yesterday, there was a positive tone to investor sentiment. The upbeat mood was supported by data, which showed a surprise fall in UK core-CPI inflation (6.2% vs. 6.8% f'cast), and a sharp decline in German PPI inflation (-12.6%) in August. Against this backdrop, the Euro Stoxx 50 rose by 0.8%.

After the close in Europe, the Fed opted to leave rates on hold, as had been widely anticipated. Chair Powell, struck a balanced chord at the press conference, reiterating that future policy decisions will be based on the incoming data. Furthermore, the updated Fed interest rate dotplot showed that the median projection is still for rates to end this year at 5.50-5.75%, compared to their current level of 5.25-5.50%. Fed officials also upped their rate projections for next year, indicating a quick reversal of policy is unlikely.

The market reaction to the meeting saw a hardening in interest rate expectations. Futures contracts now suggest that there is a 60% chance the Fed will raise rates again. Furthermore, rates are now seen as being cut by circa 60bps from their current level in 2024, compared to by 75bps before the meeting. Elsewhere, overnight, the dollar recouped its losses from earlier in the day.

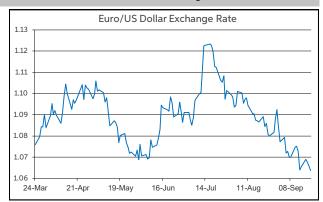
In level terms, EUR/USD opens back below the midpoint of \$1.06-1.07, having traded to a high of \$1.073 yesterday. GBP/USD is in the lower half of \$1.23-1.24. EUR/GBP remains in the 86-87p range.

Today, the monetary policy spotlight shifts to the Bank of England. Current futures pricing indicates there is just a 60% chance that the BoE will raise UK rates by 25bps, down from an 80% chance before the CPI data were released yesterday. The policy decision poses some event risk for sterling.

Daniel Noonan, Economist, AIB

Today's Opening FX Rates				
		% Change		
		Day *	End 2022	
EUR/USD	1.0639	-0.36	-0.59	
EUR/GBP	0.8637	0.20	-2.34	
GBP/USD	1.2315	-0.59	1.80	
GBP/EUR	1.1574	-0.20	2.40	
USD/JPY	148.28	0.30	13.10	
EUR/JPY	157.79	-0.04	12.47	
* v Previous Day's European Open				
See Next Page for More Rates				

Opening Interest Rates						
		Money Market		Swap Rates		5
	Base Rate	1-Mth	3-Mth	1-Yr	2-Yr	5-Yr
USD	5.38	5.44	5.66	5.59	5.37	4.68
EUR	4.50	3.89	3.93	4.14	3.86	3.41
GBP	5.25	5.30	5.36	5.48	5.34	4.74









All rates quoted are indicative market rates

See Next Page For More Rates & Charts

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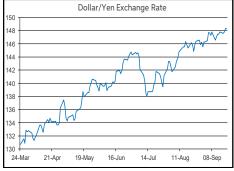
Opening Levels



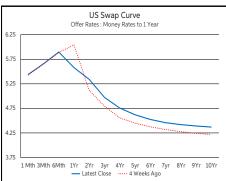
Euro)
EUR/GBP	0.8637
EUR/USD	1.0639
EUR/JPY	157.79
EUR/SEK	11.8819
EUR/DKK	7.4529
EUR/NOK	11.51
EUR/CHF	0.9573
EUR/AUD	1.6593
EUR/HKD	8.3241
EUR/CAD	1.4356

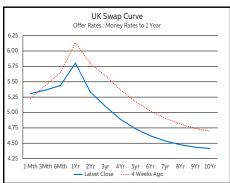
Sterling			
GBP/EUR	1.1574		
GBP/USD	1.2315		
GBP/CAD	1.6617		
GBP/NZD	2.0844		
GBP/JPY	182.62		
GBP/SEK	13.7533		
GBP/DKK	8.627		
GBP/NOK	13.3238		
GBP/CHF	1.1082		
GBP/AUD	1.9207		

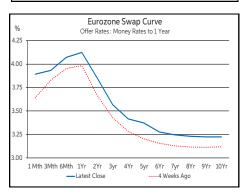
Dollar				
148.28				
1.3491				
0.8999				
7.3021				
4.8787				
96.3275				
83.139				
0.6411				
0.5906				

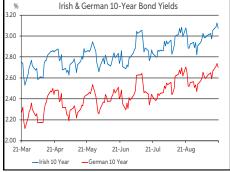












	Debt	Markets		
			Change bps	5
	Close	Day	4 Weeks	End 22
10 Year Yield %				
US	4.40	+3	+20	+52
Germany	2.70	-4	+18	+14
UK	4.22	-13	-25	+55
Ireland	3.11	-4	+20	-3
Belgium	3.33	-4	+16	+13
France	3.24	-4	+19	+13
Italy	4.45	-6	+28	-25
Spain	3.75	-5	+21	+10
Portugal	3.43	-4	+20	-17
Greece	4.11	-4	+24	-48
5 Year Swap %				
US	4.62	+6	+21	+62
Eurozone	3.37	+1	+18	+14
UK	4.74	-17	-44	+43
2 Year Swap %				
US	5.34	+9	+27	+67
Eurozone	3.85	+1	+19	+46
UK	5.33	-15	-45	+65
10 Year Governm	ent Bond Spre	ads to Ben	chmark bps	
Ireland	41	-O	+2	-18
Belgium	62	-1	-2	-2
France	54	-0	+1	-1
Italy	175	-3	+10	-39
Spain	105	-1	+3	-5
Portugal	73	-O	+2	-31
Greece	141	-1	+6	-62

Commodities					
		% Change			
	Close Day 4 Weeks End				
Brent Oil	93.53	-0.86	+12.40	+8.87	
West Texas Oil	90.3	-0.94	+14.43	+12.65	
Gold \$	1929.7	-0.07	+0.80	+5.77	

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