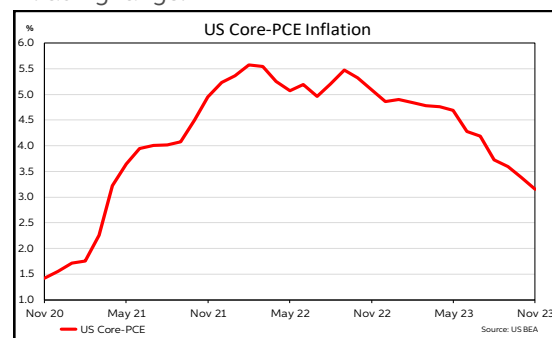


Play it Again Sam

- **The most notable feature of the main currency markets over the past year or so has been the predominance of narrow trading ranges, with the exception of the yen, which has fallen sharply.** EUR/USD has been confined to a \$1.04-1.12 corridor since late 2022, with most of the action in a \$1.06-1.11 range. Meantime, sterling has traded in a \$1.20-1.31 band versus the dollar since last March. Most remarkable has been the very narrow trading range for EUR/GBP, which has been confined to an 85-89.5p corridor since September 2022. Meanwhile, the Australian, New Zealand and Canadian dollars have also traded in narrow ranges versus the US currency over the past year, in particular since March. The question is will this stable pattern continue in 2024?
- **Monetary policy has been a crucial driver of forex markets in recent years.** The main central banks in 2023 all raised interest rates until the late summer and then kept policy unchanged over the final few months of the year. This was a key factor behind the narrow trading ranges on forex markets. The exception was the declining yen, reflecting the fact that the Bank of Japan has refrained from raising its official interest rate. Most central banks are guiding that policy will need to remain restrictive for a period of time to get inflation back to its 2% target. Significant rate cuts, though, are expected by the markets in the main economies this year bar Japan, starting in the second quarter. Futures contracts are pricing in 110-135bps of policy easing in the UK, US and Eurozone in 2024. This suggests that the main currency markets could continue to range trade for much of the year.
- **The euro and sterling made some gains during the final quarter of last year, while the dollar lost a bit of ground.** The EUR/USD rate has risen from \$1.05 at the start of October to around the \$1.09 level more recently. Meanwhile, sterling has climbed from \$1.21 to \$1.27 in the past three months. Rates are at higher levels in the US than most other economies so there is more capacity to loosen policy there once central banks move on to an easing path. The Fed has made good progress in bringing core inflation down to its 2% target and could be the first mover on rate cuts. The dollar is also still at an elevated level, having made big gains in 2021-22, and so it has greater scope to fall than most other currencies.
- **This suggests we could see the dollar losing some ground in 2024 as the Fed begins to lower rates, especially if it is an early mover.** However, the fall may be limited. As already noted, significant rate cuts are expected elsewhere too. Geo-political risks are also likely to remain elevated, with elections due in more than 70 countries covering about half the global adult population. Meanwhile, market positioning at the start of the year was relatively short the dollar and long the euro and sterling, though not excessively so. Overall, currencies may make just modest gains against the dollar this year, with the euro rising towards \$1.15 by end 2024. Meanwhile, it is hard to see what will knock EUR/GBP out of its narrow trading range.
- **Turning to the week ahead, the ECB monetary policy meeting on Thursday will be the main focus for markets.** The Governing Council is expected to leave policy on hold for the third consecutive meeting. However, investors will be paying close attention to the post-meeting statement and press conference for any guidance on the potential for rate cuts this year. Futures contracts are currently pricing in around 135bps of cuts by year end, starting as early as April, despite remarks from a number of ECB officials, including President Lagarde, indicating that rate cuts are unlikely until the summer months. The ECB may not alter this guidance too much this week, and the key message from the central bank will likely be that it remains highly data-dependent, with specific focus on services and wage inflation. **Elsewhere, the BoJ policy meeting will also be followed closely, although, like the ECB, it is not expected to change policy.**
- **Data-wise, the December reading of core-PCE inflation in the US will feature.** Since the summer of 2023, a clear disinflationary trend has taken hold in core-PCE, as it fell from 4.8% in April of last year to 3.2% in November, its lowest level since April 2021. Encouragingly, core-PCE services ex-housing, a key focus for Fed officials over the past year, rose by just 0.1% m/m in both October and November, its best back-to-back monthly performance in the last three years. The consensus is for the downward trajectory to continue in December, with core-PCE inflation easing to 3.0%. Meanwhile, the first reading of US GDP for Q4 is forecast to show the economy expanded by 2.0% annualised in the quarter, down from 4.9% in Q3.
- **In terms of timelier data, the January reading of the flash PMIs for the main advanced economies are due.** In the Eurozone, the PMIs have been in contraction mode for a number of months, albeit they edged higher in November/December. Despite a further modest improvement this month, they are expected to remain consistent with declining activity. The UK services PMI also moved higher in November/December, rising to 53.4 at the end of 2023. The manufacturing PMI though, has been well below the key 50 mark for the past 17 months. Both UK PMIs are forecast to rise in January, but manufacturing is set to remain in contraction territory. Likewise the US services PMI was in expansion mode, while the manufacturing PMI was not in December. Both are projected to maintain this trend in January. **A slew of other sentiment indicators across Europe will also feature.**



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2024	2024	2024	2024
Fed Funds	5.375	5.375	4.875	4.375
ECB Deposit	4.00	4.00	3.75	3.25
BoE Repo	5.25	5.25	5.00	4.50
BoJ OCR	-0.10	-0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
	2024	2024	2024	2024
EUR/USD	1.0879	1.10	1.11	1.12
EUR/GBP	0.8582	0.86	0.86	0.87
EUR/JPY	161.35	158	155	152
GBP/USD	1.2674	1.28	1.29	1.29
USD/JPY	148.31	144	140	136

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:				
	BoE Speakers:				
	Fed Speakers:				
Mon 22nd	CHINA:	01:15	1 Year Loan Prime Rate	3.45%	3.45%
			- 5Year Loan Prime Rate	4.20%	4.20%
Tue 23rd	JPN:		BoJ Interest Rate Decision	-0.10%	-0.10%
	EU-20:	15:00	Flash EC Consumer Confidence (January)	-15.0	-14.0
	JPN:	23:50	Trade Balance (December)	-¥780.4bn	-¥122.1bn
			- Exports	(-0.2%)	(+9.1%)
Wed 24th	JPN:	00:30	Flash Jibun Composite PMI (January)	50.0	
	FRA:	08:15	Flash HCOB Composite PMI (January)	44.8	45.4
	GER:	08:30	Flash HCOB Composite PMI (January)	47.4	47.8
	EU-20:	09:00	Flash HCOB Composite PMI (January)	47.6	48.1
			- Manufacturing / Services	44.4 / 48.8	44.8 / 49.0
	UK:	09:30	Flash Composite PMI (January)	52.1	52.3
			- Manufacturing / Services	46.2 / 53.4	46.7 / 53.5
	UK:	11:00	CBI Trends - Orders (January)	-23.0	
	UK:	11:00	CBI Business Optimism (Q1)	-15.0	
	IRL:	11:00	Residential Property Price Index (November)	+1.1% (+2.3%)	+0.4% (+2.5%)
	US:	14:45	Flash S&P Composite PMI (January)	50.9	50.7
			- Manufacturing / Services	47.9 / 51.4	47.7 / 51.1
Thu 25th	FRA:	07:45	INSEE Business Climate (January)	98.0	98.0
	GER:	09:00	German Ifo (January)	86.4	86.7
	IRL:	11:00	New Dwelling Completions (Q4 2023)	Q4'22: +9,124	+10,000
			- Full Year Total	29,751	32,443
	EU-20:	13:15	Interest Rate Announcement		
			- Deposit Rate	4.00%	4.00%
			- Re-fi Rate	4.50%	4.50%
	US:	13:30	Durable Goods (December)	5.4%	+0.0%
			- Ex-Transport	+0.4%	+0.2%
	US:	13:30	GDP (Q4: Advance Reading)	+4.9% S.a.a.r.	+2.0% s.a.a.r.
	US:	13:30	PCE-Prices (Q4: Advance Reading)	+2.6% S.a.a.r.	
			- Core-PCE Prices (Q4: Advanced Reading)	+2.0% S.a.a.r.	
	US:	13:30	Initial Jobless Claims (w/e 15th January)	+187,000	+200,000
	US:	15:00	New Home Sales (December)	+0.59m / -12.2%	+0.64m / +9.0%
	JPN:	23:30	CPI Tokyo (January)	(+2.4%)	(1.9%)
			- Ex-Fresh Food	(+2.1%)	
Fri 26th	UK:	00:01	Gfk Consumer Sentiment (January)	-22.0	
	JPN:	05:00	Leading Indicator (November: Revised Reading)	-1.2	
	GER:	07:00	Gfk Consumer Sentiment (February)	-25.1	-24.3
	FRA:	07:45	INSEE Consumer Confidence (January)	89.0	90.0
	EU-20:	09:00	M3 Annual Money Supply (December)	-0.9%	
	IRL:	11:00	Preliminary GDP Estimate (Q4 2023)	Q4'22: -1.6% (+10.2%)	
	US:	13:30	Personal Income / Real Consumption	+0.4% / +0.3%	+0.3% / +0.2%
	US:	13:30	PCE Price Index (December)	-0.1% (+2.6%)	+0.2% (+2.6%)
			- Core-PCE	+0.2% (+3.2%)	+0.2% (+3.0%)

♦ Month-on-month changes (year-on-year shown in brackets)

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