Weekly Market Brief

AIB Treasury Economic Research Unit

20th – 24th November 2023

Sense and Sensitivity

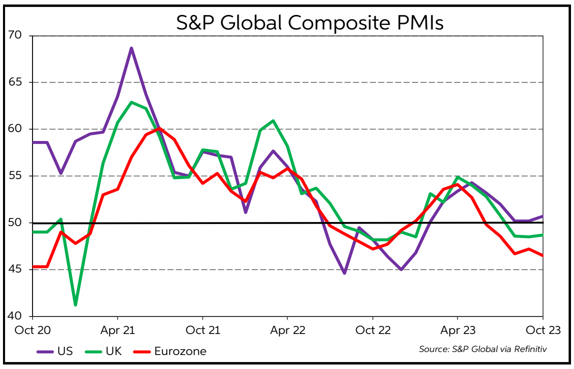
- **There was a clear example in the past week of the sensitivity of financial markets to data releases which form a crucial input into the policy deliberations of central banks.** With the main central bank's no longer providing explicit forward guidance, markets are more reactive to such data, as investors try to get a sense for the direction and timing of the next moves on the monetary policy front. The specific example in recent days was US CPI inflation data for October. The headline CPI rate for October printed at 3.2%, from 3.7% in September, representing a modest undershoot of the 3.3% consensus forecast. Similarly, the core CPI rate eased to 4.0%, from 4.1% and versus market expectations for an unchanged 4.1% reading.

- **Although, the CPI figures were only slightly below expectations, they prompted quite a reaction across a raft of asset classes.** On bond markets, US Treasury yields fell sharply, which prompted a fall in yields elsewhere. The 10-year US Treasury yield fell below the 4.5% mark. It had started this month up nearer to 5%. At the same time, there was a softening in US rate expectations in two aspects. Firstly, the market is no longer assigning any sort of meaningful chance that the Fed will hike again. Prior to the release, the market was attaching around a 30% probability of another Fed rate hike. Secondly, futures contracts have moved to price in around 100bps of rate cuts in 2024, with the first reduction envisaged by mid-year. At the start of last week, the market was anticipating rate cuts in the region of 75bps. Elsewhere, equity markets rallied on the prospect of greater rate cuts and falling yields.

- **Meanwhile, the dollar's reaction was also noticeable.** Against the backdrop of the sharp fall in Treasury yields and a softening in US rate expectations, the greenback fell by over 1% against a raft of other currencies. In level terms, EUR/USD rose from being down near $1.07, to within touching distance of the $1.09 threshold. Similarly, GBP/USD went from trading below the $1.23 threshold, to a peak at $1.25. The dollar has been very much in the ascendancy over the last 2 years. An aggressive pace of rate hikes from the Fed helped the currency hold the upper hand from mid-2021 and throughout most of 2022. Meantime, while it had retreated from its 2022 peaks, the dollar's performance year to date has seen it remain at elevated levels, aided by the strong outperformance of the US economy and associated high level of US interest rates/ Treasury yields.

- **Last week's downward pressure though, serves to highlight some potential downside risk facing the dollar over the coming quarters.** In a scenario where US inflation remains on track to get back towards the 2% target before the likes of the Eurozone and UK, and if US economic outperformance reverses, it opens up the possibility of the Fed lowering rates at a quicker pace than elsewhere. This would create a more challenging backdrop for the currency, where incoming macro newsflow and interest differentials work against the dollar, in contrast to much of the last 2 years.

- **This week, the main releases of note will be the flash PMIs for November.** In the US, both sector PMIs have improved somewhat in September, albeit they remain at quite subdued levels. The services PMI fell to a low of 50.1 in September, before edging higher to 50.6 in October. Meantime, the manufacturing PMI rose to 50.0, consistent with a stabilisation of business conditions in the sector, having printed in contraction mode for the prior five months. In contrast, the Eurozone PMIs deteriorated in October. The services and manufacturing PMIs averaged 49.2 and 43.2 in Q3, respectively, before declining to 48.0 and 43.1 in October. In the UK, both PMIs improved but remained below the key 50 level in October. **The consensus is for ongoing subdued reading across the board in November.** The US manufacturing PMI is anticipated to edge back below 50, while the services PMI is forecast to be broadly unchanged. Both the Eurozone and UK surveys are expected to remain in contraction territory.



- **In terms of some other key survey data due this week, the flash reading of Eurozone consumer confidence is forecast to inch higher for the first time in four months, to –17.6 from –17.9.** The German Ifo is also expected to improve slightly. Meanwhile, UK consumer confidence is projected to rise to –27.0 in November, from –30.0. Elsewhere, in a holiday shortened week in the US, a sharp 3% contraction in durable is pencilled in for October.

- **On the monetary policy front, the minutes from the latest ECB and Fed monetary policy meetings will garner close attention on markets.** The Treasury Select Committee hears from members of the BoE Monetary Policy Committee. All three central banks left policy on hold last time round, but indicated that rate cuts are unlikely to materialise anytime soon. Meantime, the UK Chancellor will present his Autumn Statement on Wednesday.

Interest Rate Forecasts

	Current	End Q4 2023	End Q1 2024	End Q2 2024
Fed Funds	5.375	5.375	5.375	5.375
ECB Deposit	4.00	4.00	4.00	4.00
BoE Repo	5.25	5.25	5.25	5.25
BoJ OCR	-0.10	-0.10	-0.10	0.25

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q4 2023	End Q1 2024	End Q2 2024
EUR/USD	1.0885	1.07	1.08	1.10
EUR/GBP	0.8761	0.87	0.87	0.87
EUR/JPY	162.88	157	155	152
GBP/USD	1.2423	1.23	1.24	1.26
USD/JPY	149.62	147	144	138

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 20th - Friday 24th November

AIB Treasury Economic Research

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Date	*UK & Irish Time*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde,** Schnabel (Tue); **lagarde,** de Guindos (Fri)		
	BoE Speakers:		**Bailey** (Mon); **Bailey,** Ramsden, Haskel, Mann (Tue)		
	Fed Speakers:				
			UK Autumn Statement (Wed)		
Mon 20th	**GER:**	07:00	Producer Prices (October)	-0.2% (-14.7%)	-0.1% (-11.0%)
Tue 21st	**US:**	15:00	Existing Home Sales (October)	+3.96m / -2.0%	+3.91m / +1.3%
Wed 22nd	**US:**	13:30	Initial Jobless Claims (w/e 13th November)	+231,000	+225,000
	US:	13:30	Durable Goods (October)	(+4.6%)	(-3.0%)
			- Ex-Transport	+0.4%	+0.2%
	EU-20:	15:00	Flash Consumer Confidence (November)	-17.9	-17.6
	US:	15:00	Final Uni. Michigan Consumer Sentiment (Nov)	60.4	60.5
	US:	19:00	Fed FOMC Meeting Minutes (Oct 31st-1st Nov)		
Thu 23rd	**US:**		**Thanksgiving (Public Holiday)**		
	FRA:	07:45	INSEE Business Climate (November)	98.0	98.0
	FRA:	08:15	Flash HCOB Composite PMI (November)	44.6	45.0
	GER:	08:30	Flash HCOB Composite PMI (November)	45.9	46.5
	EU-20:	09:00	Flash HCOB Composite PMI (November)	46.5	46.9
			- Manufacturing / Services	43.1 / 47.8	43.4 / 48.0
	UK:	09:30	Flash CIPS /S&P Composite PMI (November)	48.7	48.7
			- Manufacturing / Services	44.8 / 49.5	45.0 / 49.5
	EU-20:	12:00	ECB Monetary Policy Meeting Account		
	JPN:	23:30	CPI Inflation (October)	(+3.0%)	
			- Ex-Fresh Food & Energy	(+4.2%)	
Fri 24th	**UK:**	00:01	Gfk Consumer Confidence (November)	-30.0	-27.0
	JPN:	00:30	Flash Jibun Composite PMI (November)	50.5	
	GER:	07:00	GDP (Q3: Detailed Reading)	-0.1% (-0.3%)	-0.1% (-0.3%)
	GER:	09:00	Ifo Business Climate (November)	86.9	87.4
	US:	14:45	Flash S&P Composite PMI (November)	50.7	50.5
			- Manufacturing / Services	50.0 / 50.6	49.7 / 50.4

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