

## Dollar weakens following US inflation surprise

For a second consecutive month, US CPI inflation data surprised to the downside of expectations and generated some significant moves on markets. The headline CPI rate slowed to 7.1% y/y from 7.7% in October and versus a forecast of 7.3%. The core rate also came in lower than anticipated, printing at 6.0% (f'cast of 6.1%).

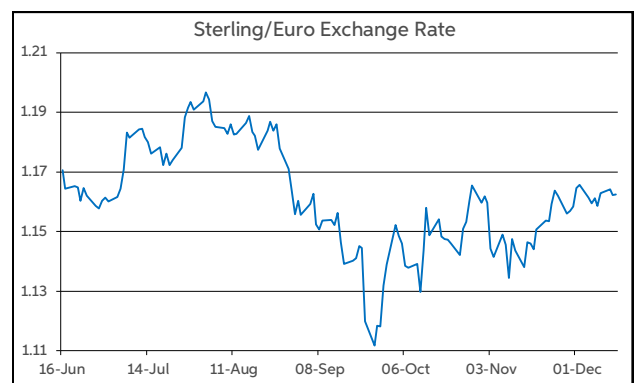
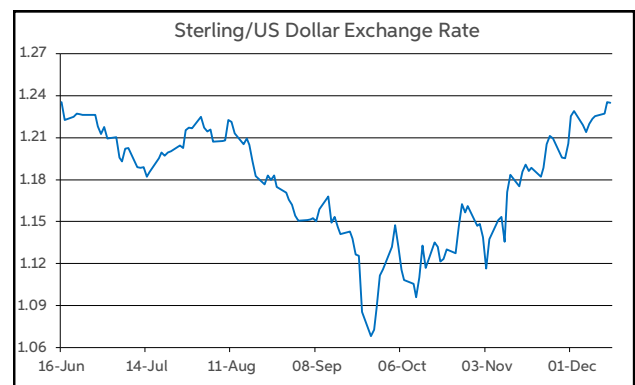
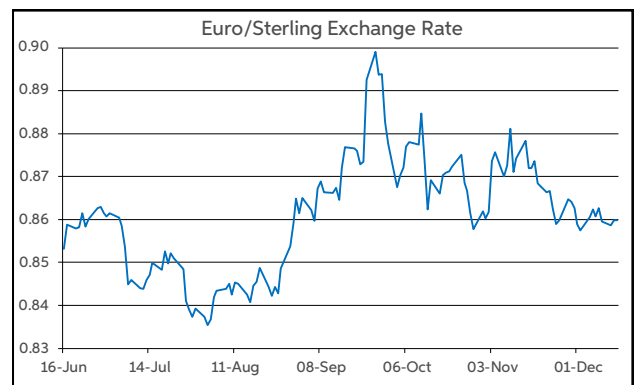
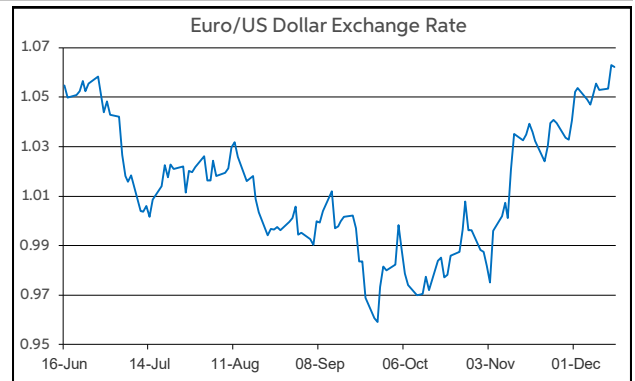
In terms of market reaction, US yields and swap rates fell by between 10-20bps along the curve. This included the policy sensitive 2-year US Treasury yield falling by around 20bps to below 4.2%. Meantime, on Wall Street, the S&P 500 gained 0.7%.

On the currency front, there was a weaker tone to the dollar following the release of the US inflation numbers. The currency initially fell by as much as 1% on the exchanges. In level terms, the softer tone to the dollar was reflected in EUR/USD moving above the \$1.06 threshold. Meantime, cable (GBP/USD) traded to a high of \$1.244, before settling back towards the midpoint of \$1.23-1.24 handle. Elsewhere, the action in EUR/GBP remained confined to a relatively tight range in and around the 86p mark.

Today, we get the first of this week's key central bank events, with the conclusion of the US Fed policy setting meeting. The Fed is expected to slow its pace of rate hikes to 50bps (from 75bps). This expectation was reinforced by yesterday's inflation data.

Aside from the magnitude of the rate hike, attention will also be on the Fed's updated interest rate projections. These may show US rates rising above 5% next year and remaining at elevated levels for some time. In contrast, the market is currently envisaging rates peaking at circa 4.85%, with rate cuts expected by end-2024. Overall, the Fed meeting entails some event risk for the dollar.

**John Fahey, Senior Economist, AIB**



Today's Opening FX Rates			
		% Change	
		Day *	End 2021
EUR/USD	1.0621	0.67	-6.57
EUR/GBP	0.8599	0.12	2.37
GBP/USD	1.2347	0.54	-8.74
GBP/EUR	1.1621	-0.12	-2.31
USD/JPY	135.44	-1.53	17.69
EUR/JPY	143.89	-0.86	9.95

\* 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	3.875	4.32	4.77	4.97	4.49	3.66
EUR	2.00	1.62	2.05	2.77	2.84	2.64
GBP	3.00	3.50	3.82	4.66	4.62	4.10

All rates quoted are indicative market rates

See Next Page For More Rates & Charts

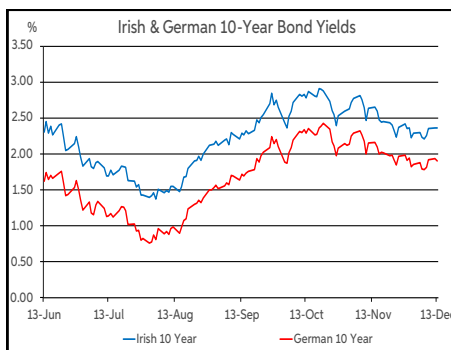
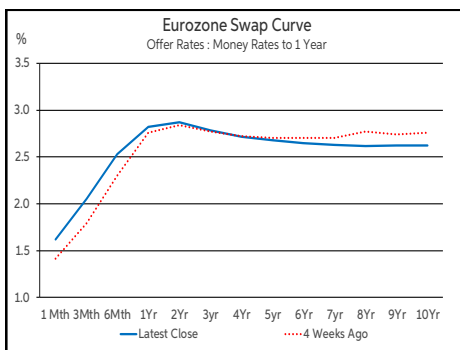
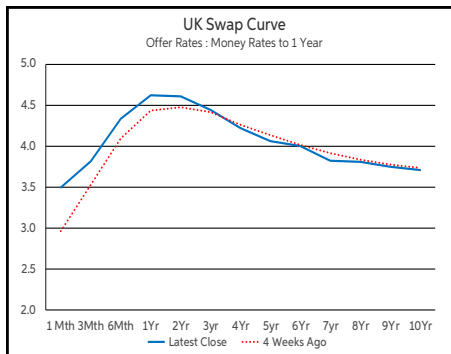
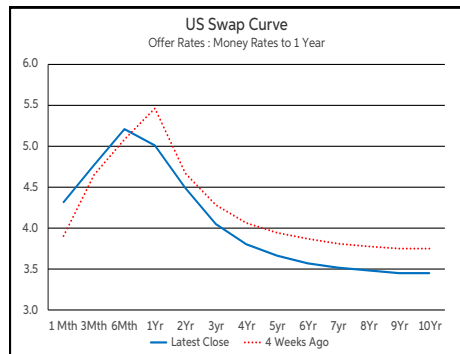
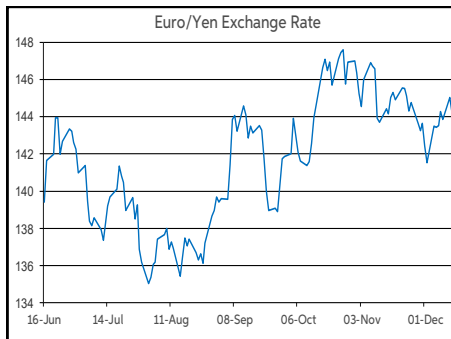
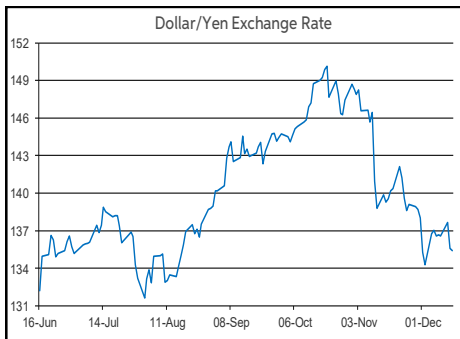
FX Spot	Karl Cooke Shane Gargan Ian Burke	FX Options	Mark Tuite	Reuters Phone	AIBG.I 00353-1-7724018	Morning Comment	John Fahey john.j.fahey@aib.ie
---------	---	------------	------------	------------------	---------------------------	-----------------	-----------------------------------

# Opening Levels

Wednesday 14 December 2022  
07:29 am



Euro		Sterling		Dollar	
EUR/GBP	0.8599	GBP/EUR	1.1621	USD/JPY	135.44
EUR/USD	1.0621	GBP/USD	1.2347	USD/CAD	1.3564
EUR/JPY	143.89	GBP/CAD	1.6752	USD/CHF	0.9289
EUR/SEK	10.8579	GBP/NZD	1.9167	USD/CNY	6.9611
EUR/DKK	7.4381	GBP/JPY	167.23	USD/BRL	5.2938
EUR/NOK	10.3883	GBP/SEK	12.6258	USD/RUB	63.3
EUR/CHF	0.9866	GBP/DKK	8.6455	USD/INR	82.539
EUR/AUD	1.5508	GBP/NOK	12.0747	AUD/USD	0.6849
EUR/HKD	8.2599	GBP/CHF	1.1472	NZD/USD	0.644
EUR/CAD	1.4409	GBP/AUD	1.8029		



Debt Markets				
	Close	Change bps		
		Day	4 Weeks	End 21
<b>10 Year Yield %</b>				
US	3.50	-12	-28	+199
Germany	1.91	-3	-19	+209
UK	3.30	+10	+0	+233
<b>5 Year Swap %</b>				
US	3.66	-14	-24	+233
Eurozone	2.68	-1	-2	+267
UK	4.06	+7	-2	+279
<b>2 Year Swap %</b>				
US	4.49	-16	-14	+355
Eurozone	2.87	-4	+4	+317
UK	4.61	+4	+14	+342
<b>10 Year Government Bond Spreads to Benchmark bps</b>				
Ireland	49	+2	-4	+6
Belgium	58	-1	-0	+22
France	49	+1	-2	+11
Italy	189	-1	-7	+53
Spain	103	-1	-2	+25
Portugal	93	-1	-4	+27
Greece	204	+2	-13	+55

Commodities				
	% Change			
	Close	Day	4 Weeks	End 21
Brent Oil	80.68	+3.45	-14.04	+3.73
West Texas Oil	75.44	+3.40	-13.16	+0.15
Gold \$	1810.3	+1.64	+1.80	-0.99

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, p.l.c. and Allied Irish Bank (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, p.l.c. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and AIB (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.