

## 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.

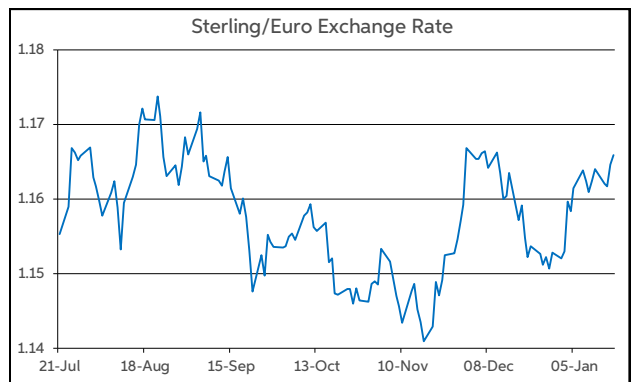
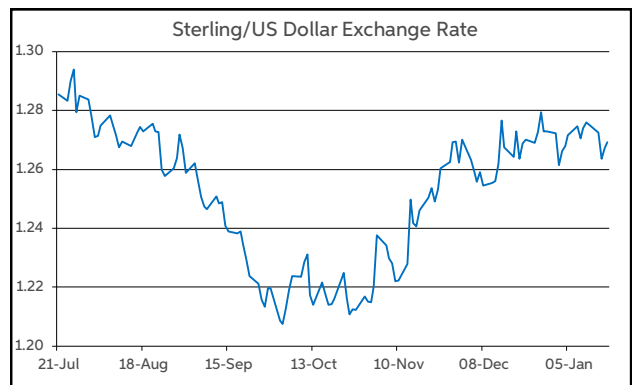
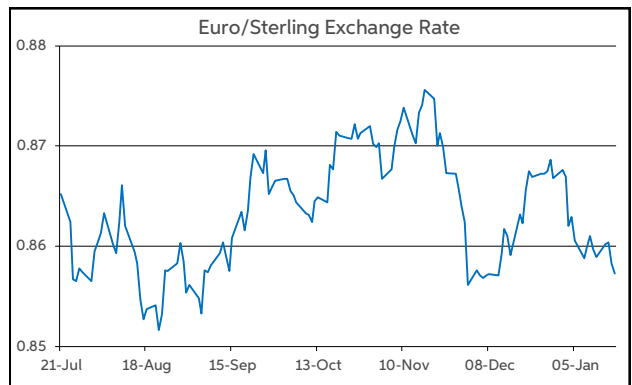
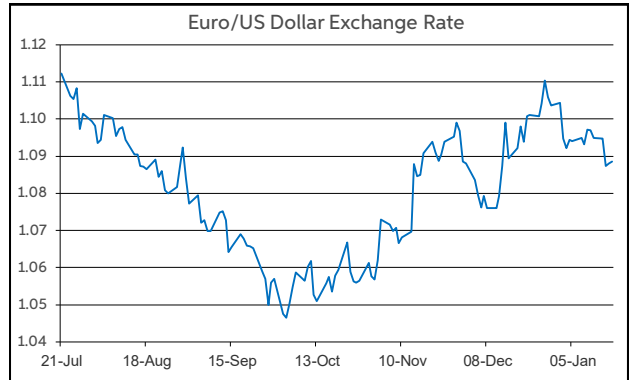
UK headline inflation rose to 4% in December, while the core rate remained at 5.1%. Meanwhile, US retail sales rose by more than forecast in December. Furthermore, the control group sales measure was revised higher for November, and was much stronger than expected in December. The data suggest the US 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 outside 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

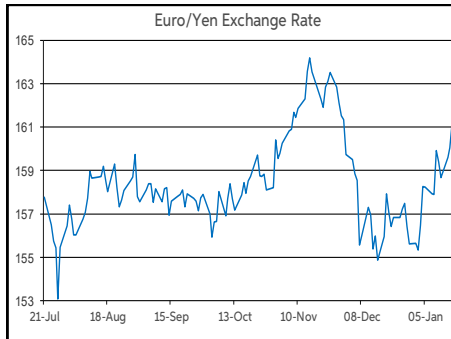
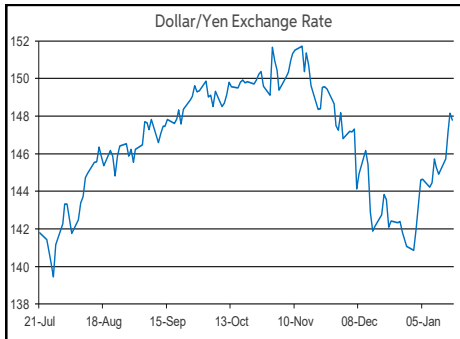
FX Spot	Karl Cooke Shane Gargan	FX Options	Mark Tuite	Reuters Phone	AIBG.I 00353-1-7724018	Morning Comment	John Fahey john.j.fahey@aib.ie
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# Opening Levels

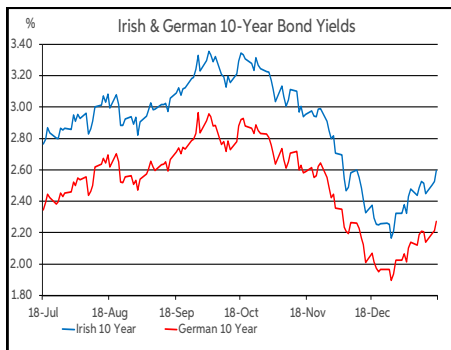
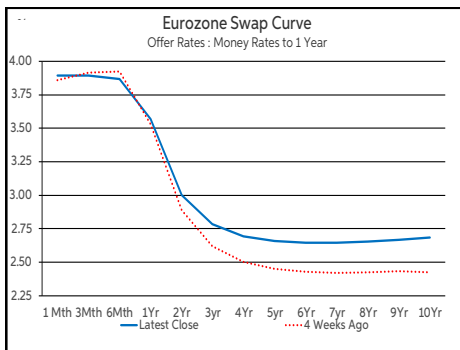
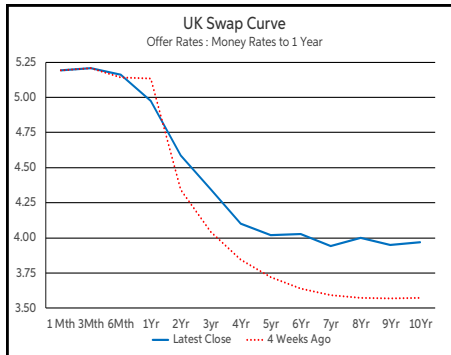
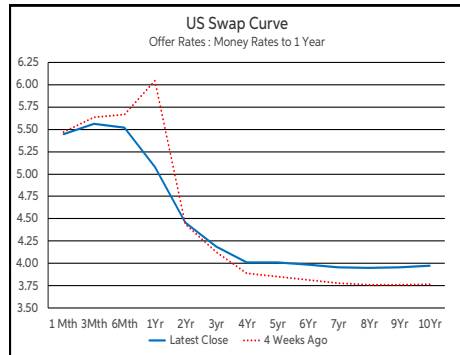
Thursday 18 January 2024  
08:01 am



Euro		Sterling		Dollar	
EUR/GBP	0.8575	GBP/EUR	1.1658	USD/JPY	147.82
EUR/USD	1.0884	GBP/USD	1.2693	USD/CAD	1.3494
EUR/JPY	160.93	GBP/CAD	1.7129	USD/CHF	0.8647
EUR/SEK	11.3713	GBP/NZD	2.0759	USD/CNY	7.1965
EUR/DKK	7.458	GBP/JPY	187.63	USD/BRL	4.9349
EUR/NOK	11.4214	GBP/SEK	13.2584	USD/RUB	88.6
EUR/CHF	0.9414	GBP/DKK	8.6953	USD/INR	83.127
EUR/AUD	1.6607	GBP/NOK	13.3235		
EUR/HKD	8.5122	GBP/CHF	1.0978	AUD/USD	0.6554
EUR/CAD	1.4688	GBP/AUD	1.9365	NZD/USD	0.6114



Debt Markets				
	Close	Change bps		
		Day	4 Weeks	End 23
<b>10 Year Yield %</b>				
US	4.11	+5	+25	+24
Germany	2.27	+6	+30	+25
UK	3.98	+18	+46	+45
<b>Ireland</b>				
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
<b>5 Year Swap %</b>				
US	4.01	+10	+20	+22
Eurozone	2.66	+7	+22	+23
UK	4.02	+17	+30	+37
<b>2 Year Swap %</b>				
US	4.46	+16	+6	+12
Eurozone	3.00	+8	+12	+21
UK	4.59	+22	+25	+32
<b>10 Year Government Bond Spreads to Benchmark bps</b>				
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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