

Singing from the Same Hymn Sheet

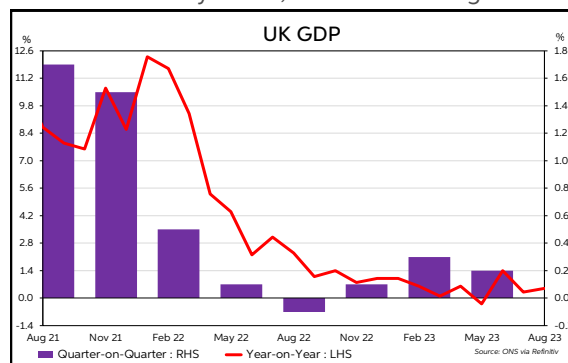
■ **We have seen big movements in bond and equity markets so far this year, with considerable volatility also, amid mixed signals from economic data and changes in expectations on the outlook for interest rates.** However, while asset markets have been very unsettled, the major currencies have operated within relatively narrow ranging trading ranges, with the notable exception on the continued weakening of the yen. This in marked contrast to the big moves seen in 2021 and 2022 when the dominant theme in forex markets was dollar strength. It gained over 25% on a trade-weighted basis between the end of 2020 and autumn of 2022 on the back of numerous factors, including a rapid rise in US interest rates, elevated risk aversion in markets and heightened geo-political tensions.

■ **It has been much smoother sailing in currency markets in 2023.** The EUR/USD rate has been largely confined to a \$1.05-1.12 corridor, compared to the wide \$0.96-1.23 trading range seen in 2021-22. Meanwhile, EUR/GBP has moved in a narrow 85.0-89.5p band to date this year, with sterling much more stable in 2023. Similarly, the Canadian, Australian and New Zealand dollars, as well as the Swiss franc, have been quite range bound this year. The main exception to this has been the continued marked weakening of the yen as the Bank of Japan continues with a very loose monetary stance.

■ **This provides a clue to the stability of the other major currencies in 2023.** Their central banks have become far more aligned on monetary policy this year. They all tightened rates aggressively in the first half of 2023, and then put policy on hold during the second half of the year. At the same time, they are warning of the need to maintain rates at restrictive levels for a prolonged period of time to bring inflation down to 2%, ruling out any cuts to interest rates in the near term. Futures contracts are pricing in that rates will be cut by 100-140bps in the UK, Eurozone and the US by end 2025, indicating that markets expect the monetary policies of the main central banks to remain very aligned over the next couple of years.

■ **If central bank policies remain very much in sync, it suggests that the main currency pairs could stay quite range bound in the coming year and in 2025.** However, forex markets don't usually remain within narrow trading ranges for long periods of time. In this regard, the US dollar remains at an elevated level after its big gains in 2021-22, so it may be at the most risk of falling. The US economy continues to outperform elsewhere so the currency may be vulnerable if it starts to slow down sharply, as has already happened elsewhere. The US would also appear to be ahead of other countries in getting core inflation back down to 2%. This opens up the scope to cut relatively high US rates more quickly than elsewhere if the economy does indeed turn down. The financing of the large twin US fiscal and balance of payments deficits could also start to get more attention in such circumstances. This would not be good news for the currency either, but for now range trading seems the order of the day.

■ **Turning to the week ahead, there is a relatively quiet data schedule on both sides of the Atlantic.** In the UK, the main highlight will be the monthly print of GDP for September, and the preliminary reading of GDP for Q3 overall. So far this year, the UK economy has performed better than anticipated, but growth has been muted at best. GDP expanded by 0.3% and 0.2%, respectively, in Q1 and Q2. However, the available monthly readings of GDP for Q3, show that the economy contracted by 0.6% in July, before rebounding slightly, by 0.2% in August. A modest 0.1% decline is pencilled in for September, meaning the full quarter reading of GDP is projected to contract by 0.1% also. Elsewhere, industrial production, which fell by 1.1% in July and by 0.7% in August, is forecast to contract by 0.1% in September. This would leave output 1.1% higher in year-on-year terms.



■ **In the Eurozone, retail sales data for September will feature.** Retail sales fell sharply by 1.3% in August. The decline in August, was broad-based with food and non-food products contracting by 1.2% and 0.9%, respectively. Furthermore, they are expected to fall by 0.2% in September. Meanwhile, produce price inflation, which dropped very sharply to -11.5% y/y in August owing to significant base effects, is forecast to fall by -12.5% in September. In terms of data from the large Eurozone national economies, German industrial production figures for September are due. Industrial output has been quite volatile recently, but overall it has declined this year. Having increased by 3.9% m/m in August, partially rebounding from an 11.3% m/m fall in July, the consensus is for output to stagnate in September.

■ **Meantime, the preliminary reading of the University of Michigan measure of US consumer sentiment for November is due.** The Michigan measure, which places a greater emphasis on household finances and spending plans than the Conference Board indicator, deteriorated over the past three months, as headline inflation rose and labour market conditions softened somewhat. It is expected to be unchanged in November from its October reading.

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2023	2024	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	End Q1	End Q2
		2023	2024	2024
EUR/USD	1.0737	1.07	1.08	1.10
EUR/GBP	0.8674	0.87	0.87	0.87
EUR/JPY	160.32	157	155	152
GBP/USD	1.2375	1.23	1.24	1.26
USD/JPY	149.31	147	144	138

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
This Week:	ECB Speakers:	de Guindos (Mon); Lane (Wed); Lane, Lagarde (Thu); Lagarde (Fri)			
	BoE Speakers:	Pill (Mon); Bailey (Wed); Pill (Thu)			
	Fed Speakers:	Schmid, Logan (Mon); Williams (Wed); Powell , Barkin, Bostic (Thu); Logan, Bostic (Fri)			
Mon 6th	GER:	07:00	Industrial Orders (September)	+3.9%	-1.0%
	ITA:	08:45	HCOB / S&P Composite PMI (October)	49.2	48.0
	FRA:	08:50	Final HCOB / S&P Composite PMI (October)	45.3	45.3
	GER:	08:55	Final HCOB / S&P Composite PMI (October)	45.8	45.8
	EU-20:	09:00	Final HCOB / S&P Composite PMI (October)	46.5	46.5
			- Final HCOB / S&P Services PMI	47.8	47.8
	EU-20:	09:30	Sentix Index (November)	-21.9	-22.2
Tue 7th	CHINA:	03:00	Trade Balance (October)	+\$77.7bn	+82.0bn
			- Exports	(-6.2%)	(-3.1%)
	GER:	07:00	Industrial Production (September)	-0.2% (-1.8%)	+0.0% (-2.7%)
	EU-20:	10:00	Producer Prices (September)	+0.6% (-11.5%)	+0.5% (-12.5%)
	US:	13:30	International Trade (September)	-\$58.3bn	-\$60.2bn
Wed 8th	GER:	07:00	Final HICP Inflation (October)	-0.2% (+3.0%)	-0.2% (+3.0%)
	EU-20:	10:00	Retail Sales (September)	-1.2% (-2.1%)	-0.2% (-3.1%)
Thu 9th	CHINA:	01:30	PPI Inflation (October)	(-2.5%)	
	CHINA:	01:30	CPI Inflation (October)	+0.2% (+0.0%)	
	IRL:	11:00	CPI Inflation (October)	+0.1% (+6.4%)	+0.2% (+5.0%)
			- HICP Inflation	Flash: +0.2% (+3.6%)	+0.2% (+3.6%)
	US:	13:30	Initial Jobless Claims (w/e 30th October)	+217,000	+219,000
Fri 10th	UK:	07:00	GDP (Q3: Preliminary Reading)	+0.2% (+0.6%)	-0.1% (+0.5%)
			- September	+0.3% (+0.5%)	-0.1%
	UK:	07:00	Industrial Output	-0.7% (+1.3%)	-0.1% (+1.1%)
			- Manufacturing Output	-0.8% (+2.8%)	+0.3% (+3.1%)
	UK:	07:00	Goods Trade Balance (September)	£15.9bn	
			- Non-EU	£4.9bn	
	ITA:	09:00	Industrial Output (September)	+0.2% (-4.2%)	-0.2% (-2.3%)
	US:	15:00	Preli. Uni. Michigan Consumer Sentiment (Nov)	63.8	63.8

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

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