FX MARKETS UPDATE | OCTOBER 2023

ANALYSIS BY REGION

Europe

- The European Central Bank is likely done with interest rate hikes, with no rate adjustment expected in the October 26 meeting. The governing council lifted rates to 4.0% at the September 14 meeting and stated that borrowing costs should be high enough to get inflation back to their 2% target. Rate cuts are now expected by June 2024, should inflation pressures smooth until then.

- GDP (Gross Domestic Product) in 2Q23 posted a 0.1% increase and we expect it to remain at the same level for the 3Q23. Tight financial conditions should keep growth constrained, especially as surveys are showing alarming signs of deterioration in activity.

- Preliminary inflation numbers released at the end of September saw the different gauges for inflation ticking lower than estimated. Overall, price pressures should start falling rapidly from here as food and core goods percentage contribution decrease, energy inflation declines, and Germany's last year cheap transport prices fall out of the annual contribution.

- 40-year low unemployment, wage growth, and the latest increase in the oil price continue to represent a real threat to the Euro-area economy. The labour market is expected to remain tight, and with that larger pay gains are generated to deal with past price increases, but this trend should start slowing down as price pressures decrease.

Date	Country	Economic Release
18-Oct-23	Euro-Aggregate	CPI Inflation YoY and MoM for September (Final)
18-Oct-23	Euro-Aggregate	CPI Core YoY for September (Final)
24-Oct-23	Euro-Aggregate	HCOB Eurozone Manufacturing PMI
26-Oct-23	Euro-Aggregate	ECB Deposit Facility Rate
26-Oct-23	Euro-Aggregate	ECB Margin Lending Facility
31-Oct-23	Euro-Aggregate	GDP QoQ and GDP YoY (Advance)
31-Oct-23	Euro-Aggregate	CPI Inflation YoY and MoM for October (Preliminary)
31-Oct-23	Euro-Aggregate	CPI Core YoY for October (Preliminary)

United Kingdom

- Recent data suggests that the UK economy is struggling under the weight of higher interest rates. The Bank of England took note of this and paused its interest rate hiking cycle in September, allowing the MPC to assess how recent hikes are impacting the outlook for growth and inflation.

- The UK has so far avoided a recession, boosted by resilient households helping the economy to register small growth in H1 2023. The recent sharp fall in PMI data has raised the downside risk, increasing the odds of a possible quarterly GDP decline in the fourth quarter.

- UK inflation has seemingly turned a corner. After months of stubbornly sticky inflation, the annual CPI fell to 6.7% in August from 6.8% in July, despite a surge in fuel costs. Core inflation improved to 6.2% from 6.9%, with markets forecasting a further easing in inflation in October, aided by a combination of base effects and falling energy prices. The better-than-expected September print validated the Bank of England's decision to keep rates unchanged at the September policy meeting.

- The BoE ended two years of interest rate hikes, after raising borrowing costs by 515 basis points since December 2021. The benchmark rate was held at 5.25% after the September 21 meeting, leading many economists to suggest that the MPC has now reached the terminal interest rate. In recent months markets had been pricing a terminal rate up to 6.5%, and whilst guidance continues to suggest that more hikes could come if inflation pressures persist; recent data has turned sufficiently dovish and unlikely to raise sufficient concerns to prompt the central bank to hike again.

Date	Country	Economic Release
04-Oct-23	UK	CIPS UK Sevices & Composite PMI for Sep
05-Oct-23	UK	CIPS UK Construction PMI for Sep
12-Oct-23	UK	Monthly GDP for Aug
12-Oct-23	UK	Industrial Production for Aug
12-Oct-23	UK	Visible Trade Balance for Aug
17-Oct-23	UK	Average Eranings,Jobless and Claimant Count for Sep
18-Oct-23	UK	CPI and PPI for Sep
20-Oct-23	UK	Retail Sales for Sep
24-Oct-23	UK	CIPS PMI data for Oct

United States

- The Federal Reserve left rates on hold at the September 19-20 FOMC (Federal Open Market Committee) meeting, something that was widely expected. Now, what was surprising for most of us was the summary of economic projections where the next 2 year's rate projections were clearly hawkish, reassuring the "higher for longer" motto. No recession has been forecasted by Fed Officials, and Chair Jerome Powell says the main goal is to achieve a soft landing.

- Core inflation YoY (year on year) released in September surprised positively, keeping in line with consensus at 4.3% and lower than the prior 4.7% with transportation services aiding this decrease. Core CPI (Consumer Price Index) MoM (Month Over Month) however ticked up to 0.3%, 0.1% higher than the previous reading, Headline CPI increased 0.6%, vs. 0.2% in July, and YoY edged up to 3.7%, vs.3.2%. Inflation is set to decline but new risks coming from a tight supply in the oil markets, lifting the barrel price higher could lead the Fed to review its rate, an increased probability of a rate hike by the central bank on the November 1st Meeting.

Date	Country	Economic Release
04-Oct-23	US	ADP Employment Change for Sep
06-Oct-23	US	Non-Farm Payrolls for Sep
11-Oct-23	US	PPI Inflation for Sep
11-Oct-23	US	Release of minutes of Sep FOMC meeting
12-Oct-23	US	CPI Inflation for Sep
24-Oct-23	US	Manufacturing and Services PMI for Oct
26-Oct-23	US	GDP Annualised QoQ for Q3
27-Oct-23	US	PCE deflator for Sep

CURRENCY PAIRS: What is next?

EUR/USD – Can the Euro Bulls resist a stronger dollar and high US yields?

- Price action at the end of September was aggressive, we saw the Euro slump and touch the key resistance of 1.05, which has been rejected but we are confident this level will be tested again and possibly edge lower.

- Combining a hawkish Federal Reserve, with the ECB (European Central Bank) being done with its tightening campaign plus rising US yields and Euro-dominated ETF selling by investors, we expect the euro to continue to lose in the month of October. Oil prices advanced last week to $95/bb and a current slowdown risk starting to build up in China should make It harder to be short the greenback.

- First resistance sits near 1.0630 and the key resistance at 1.0720.

- First supports sits near 1.0520 which we have been hovering, and the key support now at 1.0400 (2023 low).

Source: Bloomberg

GBP/USD – Will the BoE's pause trigger a fresh assault on the year low?

- The pair remains in a downtrend since the summer peak when cable traded above 1.31. Cable fell through key support at 1.25 during September and continued its decline after the MPC meeting when the BoE delivered its surprise pause.

- Higher US yields and a stronger dollar index, coupled with the likelihood that UK interest rates have peaked lead us to forecast further weakness in the pound. UK data is likely to surprise to the downside following recent PMI survey weakness and UK disinflation suggesting that the worst is yet to come for the UK labour market and the pound.

- Initial resistance sits at 1.2250, ahead of the 1.2550 area which acted as initial support.

- The psychological 1.20 area acts as initial support ahead of 1.1953, whilst a breach here suggests an attempt at 1.18, last traded in March of this year.

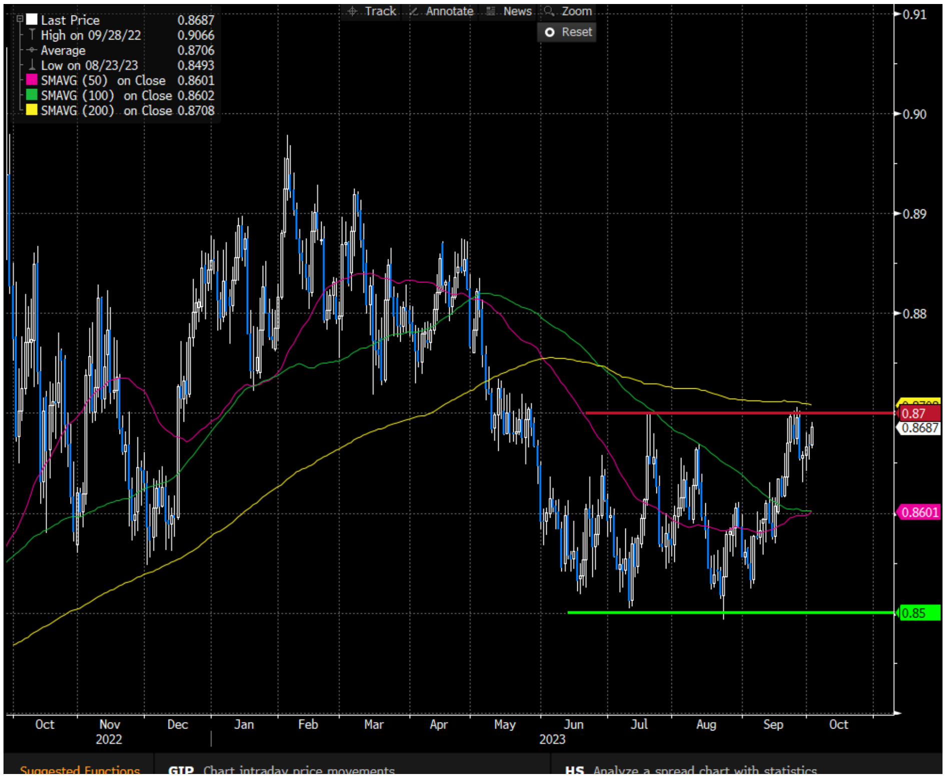
Source: Bloomberg

EUR/GBP – Which will be the survivor of the weakest?

- Both the Euro and Sterling are in a tricky economic situation, but we have reasons to believe EUR/GBP should start to appreciate over the coming month. Sterling has long been supported by the expectation of further interest rate hikes but as we have seen in the previous month, the Bank of England surprised many of us by holding the benchmark rate, and that took the pair to touch the 0.87 key resistance.

- 1st resistance around 0.8700 and the key resistance at 0.88.

- 1st Support around 0.8630 and they key support at 0.85.



Source: Bloomberg

Francisco Mioludo

Francisco Mioludo is a trader for GPS Capital Markets at the London office. Before joining GPS, Francisco worked in Market Risk at a commodity trading firm in London where he gained valuable skills for his current role. Francisco looks after our EU and UK sales team with everything from analysis to structuring and pricing.
fmioludo@gpsfx.com

Simon Walker

Simon Walker is head of the GPS Capital Markets trade desk in our London office. He has worked for GPS for 7 years, with the past 5 years spent working on our UK trade desk responsible for covering market risk in European hours. He has over 25 years' experience in foreign exchange, working in both sales and trading.

swalker@gpsfx.com

ABOUT GPS CAPITAL MARKETS

GPS Capital Markets provides corporate foreign exchange services to help companies manage their foreign currency risk and execute foreign currency transactions.

Clients across the world trust GPS to minimize their FX risk and grow their international business by combining competitive exchange rates, and our award-winning FXpert® platform with a host of tailored international financial solutions including Intercompany Netting, Hedge Accounting, Balance Sheet Hedging, FX execution, Data Analytics and Cash Flow Hedging. For more information, visit www.gpsfx.com