

January 2024

# FX MARKET BRIEF

Key Global Market Insights

## ANALYSIS BY REGION

### Euro-Area: “Q1 cut?”

- The European Central Bank is now done with its hiking campaign with the current deposit rate at 4% – underlying inflation is smoothing, and the headline print is lowering towards the 2% target. Additionally, activity surveys across various sectors show a significant deterioration and diminishing credit availability.
- Markets are seeing inflation decrease through this year and to reach 1.6% by January 2025, and roughly 1.5 percentage points of cuts by year-end are priced in. The first cut is priced for the April meeting, but some still favour the first cut in March (current probability at ~39%). The ECB, rather than the Fed, is cautious whenever the word “easing” is mentioned, which can translate into a delay in starting the easing cycle, meaning the pace of cuts could be faster.
- Headline CPI for December advanced to 2.9% YoY (vs. 2.4% prior).
- The region now flirts with the first recession since the pandemic, and the turning point now is where the euro-area is heading: a soft landing or a hard one due to the high borrowing costs, which could trigger ECB’s imminent action to change monetary policy earlier than planned.

Date	Country	Economic Release
17-Jan-24	Euro - Aggregate	CPI YoY and MoM for Nov
24-Jan-24	Euro - Aggregate	Eurozone PMI Data (Manufacturing, Services and Composite)
25-Jan-24	Euro - Aggregate	ECB Rate Decision
30-Jan-24	Euro - Aggregate	GDP QoQ & YoY

## United Kingdom: “Last to cut?”

- Members of the Monetary Policy Committee kept rates unchanged at the December policy meeting, with Governor Andrew Bailey saying that the BoE is taking a “more cautious” stance on interest rates than markets. He continues to suggest that it is too soon to consider a policy pivot, deciding to keep the key interest rate at 5.25% in the final meeting of 2023.
- The UK enjoyed another below-consensus inflation report, with November’s Core CPI YoY rising 5.1% against an estimate of 5.6% and the headline coming in at 3.9% against an estimate of 4.3%.
- There is now some suggestion that the BoE may need to pare back its ‘higher for longer’ message, which contrasts with the more dovish rhetoric from both the Fed and the ECB.
- The UK suffered a minor recession during the second half of last year; however, the outlook is looking more favourable at the start of the new year, with the growth picture starting to brighten. Markets are currently pricing up to five quarter-point interest rate cuts from the MPC, with the first move coming at the June policy meeting.

Date	Country	Economic Release
16-Jan-24	UK	Jobless claims and average earnings for Dec
17-Jan-24	UK	CPI and PPI for Dec
19-Jan-24	UK	Retail Sales for Dec
24-Jan-24	UK	Services, Manufacturing & Composite PMI for Jan

## United States: “Not in a rush.”

- The Federal Reserve has ended one of the most aggressive tightening campaigns in forty years, with Fed Chair Jerome Powell and his fellow colleagues acknowledging the need to cut rates in 2024 but that they will proceed carefully and closely monitoring any improvements in price pressures as well as other relevant indicators.
- Headline CPI for December ticked higher than the consensus, rising to 0.3% MoM (vs. 0.1% prior), and the YoY number advanced to 3.4% (vs. 3.1% prior). The core print remained at 0.3% MoM and YoY; core inflation fell to 3.9% (vs 4.0% prior). This data came in as a threat, leaving many analysts wondering if the market has priced in too much too soon from the Fed.
- Traders have now priced at least six 25 basis point interest rate cuts by the end of the year, with some favouring the first rate cut as soon as March (current probability at ~76%) and others only expecting for that to be in April.

Date	Country	Economic Release
16-Jan-24	US	Empire Manufacturing
17-Jan-24	US	Retail Sales Advance MoM for Dec
17-Jan-24	US	Industrial Production MoM for Dec
19-Jan-24	US	U. of Michigan Sentiment
24-Jan-24	US	S&P Global US PMIs
25-Jan-24	US	Core CPE Price Index for Dec
25-Jan-24	US	GDP Annualized for QoQ
26-Jan-24	US	Personal Income & Spending for Dec
31-Jan-24	US	FOMC Rate Decision
31-Jan-24	US	ADP Employment Change

## CURRENCY PAIRS

### EUR/USD

- The euro has traded well against the greenback since the beginning of December, which can be easily explained by the bets traders have made on the Fed easing in 2024. The pair moved from its low of 1.0724 to currently trade mid 1.09-1.10 and continues to respect its bullish trend.
- Levels to watch are the 1.0880 support, and any break of this level could mean a change in the trend. 1.0850 is the last level of support near the 200-day MA.
- First resistance sits at 1.1010, followed by key resistance at 1.1130.



Region <b>G10</b>			Currency <b>Euro</b>				As of <b>01/15/24</b>			
<b>EURUSD</b>			Q1 24	Q2 24	Q3 24	Q4 24	2025	2026	2027	2028
Spot	1.10	Median	1.10	1.10	1.11	1.12	1.15	1.16	1.17	1.16
Q4 23	Actual	Mean	1.09	1.10	1.11	1.12	1.15	1.16	1.17	1.18
		High	1.13	1.16	1.17	1.18	1.23	1.22	1.22	1.30
Q4 23	Forecast	Low	1.04	1.00	1.03	1.04	1.08	1.11	1.11	1.11
		Forward	1.10	1.10	1.11	1.11	1.13	1.14	1.16	1.17

Source: Bloomberg

## EUR/GBP

- Trading the cross has become a choice of which of the two economies is less weak. Growth is fragile, and while the core print in the eurozone continues to trend lower, the UK's metric continues to be sticky. This should keep the BOE on its toes and wait longer to deliver any cuts, which should support sterling in the upcoming weeks. Any rally on the pair should be short-lived.
- Euro-Sterling advanced throughout December, but it peaked at 0.8714 (Dec's high) and dropped to 0.8587, following better-than-expected MoM UK GDP. This move has brought into play December's low of 0.8550, should a break of 0.8587 happen.
- First resistance sits at 0.8620, followed by key resistance near 0.8700.



Region	G10	Currency	Euro / British Pound Cross	As of	01/15/24					
EURGBP										
Spot	.86	Median	Q1 24	Q2 24	Q3 24	Q4 24	2025	2026	2027	2028
Q4 23	Actual	Mean	.87	.88	.87	.88	.88	.88	.89	.92
		High	.87	.87	.87	.87	.89	.89	.90	.91
Q4 23	Forecast	Low	.91	.91	.91	.92	.95	.94	.94	.94
		Forward	.83	.82	.82	.82	.83	.85	.87	.87
			.86	.86	.87	.87	.88	.90	.91	.91

Source: Bloomberg

## GBP/USD

- The pound remains well supported against the US dollar, with cable trading towards the top of its recent trading range after failing to hold gains above 1.28, recorded towards the end of December. The improved UK has been supportive of sterling. However, investors remain nervous about building long positions, preferring to buy the pound on dips.
- Support levels to watch are 1.2610 ahead of 1.2540, with a breach suggesting a further attempt towards 1.22.
- First resistance sits at 1.2730 ahead of 1.2830, which was recorded at the end of last month.



Region	G10	Currency	British Pound	As of 01/15/24							
	GBPUSD			Q1 24	Q2 24	Q3 24	Q4 24	2025	2026	2027	2028
Spot	1.28	Median		1.26	1.26	1.27	1.30	1.29	1.34	1.30	1.25
Q4 23	Actual	Mean		1.26	1.27	1.27	1.28	1.30	1.31	1.29	1.28
		High		1.31	1.35	1.34	1.35	1.38	1.38	1.37	1.37
Q4 23	Forecast	Low		1.17	1.17	1.19	1.20	1.21	1.21	1.21	1.21
		Forward		1.28	1.28	1.28	1.28	1.28	1.28	1.28	1.29

Source: Bloomberg

For an analysis of your exposures and currencies, schedule a call with a GPS FX advisor at [www.GPSFX.com/book-a-call](http://www.GPSFX.com/book-a-call).



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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' of experience in foreign exchange, working in both sales and trading.

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