



MONEX

Week Ahead

26th February - 1st March 2024

Inflation remains in focus

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The start of this week saw Asian markets returning just as North America went on holiday. That left the focus coming into the week on Chinese stimulus efforts, though these arguably failed to have the desired effect, instead raising yet further questions around Chinese growth. Outside this, a lack of liquidity and a light data calendar meant that price action was muted in the early part of the week. That was until Thursday, when Nvidia earnings triggered a risk on sugar rush to temporarily shake markets out of their stupor, though with FX traders rapidly coming to their senses, the immediate dollar selloff was soon reversed. That left many looking towards the weeks main event, European PMIs, which largely landed on expectations. These once again painted a picture of weak eurozone growth contrasted against reasonably strong expansion underway in the UK. The one notable surprise was arguably the tick up in price pressures on the continent, particularly in Germany, where the outlook for growth remains bleak. Nevertheless, it was sufficient to prevent markets from accelerating ECB easing bets on the back of weak growth, but also keeping GBPEUR price action contained on the day, in spite of better UK fundamentals. For the broad dollar, even some hawkish comments by the Fed's Waller early on Friday morning failed to spark some upside, leaving the greenback to close out the week down around three tenths of a percent.

Next week, it will be inflation dynamics outside the US that are set to be in focus for FX markets. The week starts with CPI data out of Japan that looks set to show a further cooling in price growth, which could sow some seeds of doubt in the minds of BoJ policymakers, and trigger a move higher for USDJPY. Two central bank decisions then fill out the middle of the week. The first of these comes from the NBH, where faster than expected disinflation likely sees policymakers accelerate the rate of pace cuts. In New Zealand by contrast, the discussion will be about inflationary stickiness, and although we expect the RBNZ to remain on hold, some are speculating about the risk of another rate hike. This is then followed with by a Canadian GDP print, which should show a narrow escape from recession at the end of last year. Finally, the week comes to a close with eurozone inflation data, the last set of figures due before the ECB's March meeting. This will almost certainly confirm the need for a downgrade to the bank's inflation forecasts next month, adding further support to our call for an April start to eurozone rate cuts, which could in turn weigh on the euro. As such, with both the euro and the yen facing downside risks next week, a path higher for the broad dollar could still be unlocked next week, despite a relative lack of domestic US events to act as an upside catalyst.

ECONOMIC CALENDAR

All times in GMT

Monday 26/02

Time	Country	Event	Period	Estimate	Prior
05:00	Singapore	Industrial production MoM (YoY)	Jan	4.3% (4.3%)	-1.7% (-2.5%)
07:00	Norway	Unemployment rate trend	Jan		3.7%
08:00	Spain	PPI MoM (YoY)	Jan		-0.30% (-6.30%)
	Eurozone	ECB's Vujcic speaks			
09:00	Switzerland	Domestic (Total) sight deposits CHF	Feb 23		468.6b (477.1b)
11:00	UK	CBI retailing reported sales	Feb		-50
11:25	Brazil	BCB weekly economist survey			
15:00	US	New home sales MoM	Jan	3.2%	8.0%
15:30	US	Dallas Fed manufacturing activity	Feb		-27.4
23:30	Japan	Natl CPI YoY	Jan	1.9%	2.6%
		Natl CPI ex fresh food, energy YoY	Jan	3.3%	3.7%

Tuesday 27/02

Time	Country	Event	Period	Estimate	Prior
00:01	UK	BRC shop price index YoY	Feb		2.9%
05:30	Norway	Consumer confidence	1Q		-33.5
07:00	Germany	GfK consumer confidence	Mar	-29.0	-29.7
	Sweden	Riksbank's Thedeen speaks at event in Norrkoping			
07:45	France	Consumer confidence	Feb	92	91
12:00	Brazil	IBGE inflation IPCA-15 MoM (YoY)	Feb	0.80% (4.50%)	0.31% (4.47%)
13:00	Hungary	Central Bank rate decision		9.00%	10.00%
13:30	US	Durable goods orders	Jan P	-4.5%	0.0%
14:00	US	FHFA house price index MoM	Dec		0.3%
15:00	US	Richmond Fed manufacturing index	Feb		-15
		Richmond Fed business conditions	Feb		-3
		Conference board consumer confidence	Feb	114.8	114.8
		Conference board expectations	Feb		83.8
15:30	US	Dallas Fed services activity	Feb		-9.3
TBA	Germany	Retail sales MoM (YoY)	Jan		-1.1% (-4.1%)
	UK	Nationwide house PX MoM (YoY)	Feb	0.2% (0.6%)	0.7% (-0.2%)

Wednesday 28/02

Time	Country	Event	Period	Estimate	Prior
00:30	Australia	CPI YoY	Jan	3.6%	3.4%
01:00	New Zealand	RBNZ official cash rate		5.50%	5.50%
		RBNZ monetary policy statement			

Time	Country	Event	Period	Estimate	Prior
05:00	Japan	Leading index CI	Dec F		110
07:00	Sweden	PPI MoM (YoY)	Jan		-1.6% (-7.7%)
08:00	Sweden	Consumer confidence	Feb		82.3
		Manufacturing confidence	Feb		99.3
09:00	Switzerland	UBS survey expectations	Feb		-19.5
10:00	Eurozone	Consumer confidence	Feb F		-15.5
		Economic confidence	Feb	96.6	96.2
12:00	US	MBA mortgage applications	Feb 23		-10.6%
13:30	Canada	Payroll employment change - SEPH	Dec		-88.3k
	US	GDP annualized QoQ	4Q S	3.3%	3.3%
		Personal consumption	4Q S	2.7%	2.8%
		GDP price index	4Q S		1.5%
		Core PCE price index QoQ	4Q S		2.0%
17:00	US	Fed's Bostic participates in fireside chat			
18:30	Mexico	Banxico releases inflation report			
23:50	Japan	Retail sales MoM (YoY)	Jan	0.5% (2.0%)	-2.6% (2.3%)
		Department store, supermarket sales YoY	Jan		2.5%
		Industrial production MoM (YoY)	Jan P	-7.0% (-1.8%)	1.4% (-1.0%)
TBA	Hong Kong	GDP QoQ (YoY)	4Q F		0.5% (4.3%)
		GDP YoY	2023 F		3.2%

Thursday 29/02

Time	Country	Event	Period	Estimate	Prior
00:00	New Zealand	ANZ activity outlook	Feb		25.6
		ANZ business confidence	Feb		36.6
00:01	UK	Lloyds business barometer	Feb		44
		Lloyds own price expectations	Feb		56
00:30	Australia	Retail sales MoM	Jan	1.6%	-2.7%
01:30	Japan	BOJ Board Takata speaks in Shiga			
06:30	France	Private sector payrolls QoQ	4Q F		0.0%
07:00	Sweden	Wages non-manual workers YoY	Dec		4.9%
		GDP QoQ (YoY)	4Q	0.0%	-0.3% (-1.4%)
		Retail sales MoM (YoY)	Jan		-0.2% (-2.2%)
	Turkey	GDP QoQ (YoY)	4Q	0.5% (3.5%)	0.3% (5.9%)
07:30	Hungary	PPI MoM (YoY)	Jan		-0.7% (-7.2%)
07:45	France	CPI MoM (YoY)	Feb P	0.7% (2.8%)	-0.2% (3.1%)
		GDP QoQ (YoY)	4Q F	0.0% (0.7%)	0.0% (0.7%)
		PPI MoM (YoY)	Jan		0.1% (-0.9%)
		Consumer spending MoM (YoY)	Jan	-0.2%	0.3% (1.3%)

Time	Country	Event	Period	Estimate	Prior
08:00	Switzerland	KOF leading indicator	Feb	101.5	101.5
		GDP QoQ (YoY)	4Q	0.2% (0.7%)	0.3% (0.3%)
	Spain	CPI MoM (YoY)	Feb P	0.3% (2.9%)	0.1% (3.4%)
		CPI core YoY	Feb P		3.6%
08:55	Germany	Unemployment change (000's)	Feb	10.0k	-2.0k
		Unemployment claims rate	Feb	5.8%	5.8%
09:00	Poland	GDP QoQ (YoY)	4Q F		0.0% (1.0%)
09:30	UK	Consumer credit YoY	Jan		8.5%
		Mortgage approvals	Jan		50.5k
	South Africa	PPI MoM (YoY)	Jan	0.2% (4.8%)	-0.6% (4.0%)
11:30	Brazil	Net debt % GDP	Jan		60.8%
12:00	Canada	CFIB business barometer	Feb		49
		Mexico	Unemployment rate	Jan	
	Brazil	National unemployment rate	Jan	7.8%	7.4%
13:00	Germany	CPI MoM (YoY)	Feb P	0.5% (2.6%)	0.2% (2.9%)
13:30	Canada	GDP MoM (YoY)	Dec	0.2% (1.6%)	0.2% (1.1%)
		GDP annualized	4Q	1.0%	-1.1%
	US	Personal spending	Jan	0.2%	0.7%
		PCE deflator MoM (YoY)	Jan	0.3%	0.2% (2.6%)
		PCE core deflator MoM (YoY)	Jan	0.4% (2.8%)	0.2% (2.9%)
		Initial jobless claims	Feb 24		
		Continuing claims	Feb 17		
14:45	US	MNI Chicago PMI	Feb		46
16:00	US	Kansas City Fed manufacturing activity	Feb		-9
		Fed's Goolsbee gives remarks on monetary policy			
21:00	New Zealand	ANZ consumer confidence index	Feb		93.6
23:30	Japan	Jobless rate	Jan	2.4%	2.4%
		Job-to-applicant ratio	Jan	1.27	1.27

Friday 01/03

Time	Country	Event	Period	Estimate	Prior
00:05	New Zealand	RBNZ Governor Orr speaks to Canterbury Chamber			
01:30	China	Composite PMI	Feb		50.9
		Manufacturing PMI	Feb	49.1	49.2
		Non-manufacturing PMI	Feb	50.8	50.7
01:45	China	Caixin manufacturing PMI	Feb	50.7	50.8
05:00	Japan	Consumer confidence index	Feb	38.3	38
07:30	Sweden	Swedbank/Silf manufacturing PMI	Feb		47.1

Time	Country	Event	Period	Estimate	Prior
	Switzerland	Retail sales YoY	Jan		-0.8%
08:00	Hungary	Manufacturing PMI	Feb	49.0	49.9
08:15	Spain	HCOB manufacturing PMI	Feb	50.0	49.2
08:30	Hong Kong	Retail sales YoY	Jan		7.8%
	Switzerland	Manufacturing PMI	Feb	44.8	43.1
		Services PMI	Feb		54.6
09:00	South Africa	Absa manufacturing PMI	Feb		43.6
	Norway	DNB/NIMA manufacturing PMI	Feb		50.7
		Unemployment rate	Feb		1.90%
10:00	Eurozone	CPI MoM (YoY)	Feb P	0.6% (2.5%)	-0.4% (2.8%)
		CPI core YoY	Feb P	3.0%	3.3%
		Unemployment rate	Jan	6.4%	6.4%
12:00	Brazil	GDP QoQ (YoY)	4Q	0.1% (2.2%)	0.1% (2.0%)
13:00	Brazil	S&P Global manufacturing PMI	Feb		52.8
14:30	Canada	S&P Global manufacturing PMI	Feb		48.3
15:00	Mexico	S&P Global manufacturing PMI	Feb		50.2
		Remittances total	Jan		\$5489.7m
		Banxico economist survey			
	US	University of Michigan sentiment	Feb F	79.6	79.6
		University of Michigan expectations	Feb F		78.4
		University of Michigan 1 year inflation	Feb F		3.0%
		University of Michigan 5-10 years inflation	Feb F		2.9%
		ISM manufacturing	Feb	49.2	49.1
		ISM prices paid	Feb		52.9
		ISM new orders	Feb		52.5
		ISM employment	Feb		47.1
16:00	US	Kansas City Fed services activity	Feb		-2
17:15	US	Fed's Bostic speaks on economic outlook			
18:00	Mexico	IMEF non-manufacturing index	Feb		52
		IMEF manufacturing index	Feb		51.6
18:30	US	Fed's Daly participates in panel discussion with Fed's Schmid			

JAPAN INFLATION

Japanese inflation could sow some seeds of doubt

Coming into this year, our call for yen appreciation was predicated largely on expectations for the BoJ. Namely, that there would be an exit from yield curve control in April, before negative interest rate policy is then abandoned towards the back end of the year. Up until now, this view has seen some challenges, not least from market expectations for Fed easing. Having come into the year way too dovish, pricing has now swung in the other direction and is now too conservative in our view, with higher US rates weighing on the yen at present. Nevertheless, we still think that the BoJ's actions will be key for the yen's fortunes over the course of the year, with our core view for policy normalisation continuing to rest on two pillars. The first is for Shunto wage negotiations to indicate that inflation has been sustainably embedded via pay increases, a dynamic that should be apparent by the time of the April policy meeting. Second, that wage increases are in turn being passed on through rising prices, though the timing and strength of this currently looks more uncertain. Indeed, a similar sentiment has recently been forthcoming from the BoJ itself, citing "a virtuous cycle between inflation and wages" as a condition for starting policy normalisation.

"As such, next week's CPI release will be a key test for our view of the BoJ. That said, consensus expectations are looking for a further slowdown in price growth, which if realised, could dent confidence in the BoJ's ability to exit YCC as soon as April."

Markets currently expect headline CPI to print at 1.9% YoY, and 1.8% once stripping our food prices. Whilst this would leave inflation tracking below the 2% rate expected by the BoJ for 2024, this is unlikely to trouble the BoJ too much, especially with much of the negative impetus stemming from energy costs. Stripping both these, and food costs out of the consumption basket, economists expect price growth of 3.3% YoY in January. This would be above the BoJ's 2% target, but also a notable drop-off from December's 3.7% reading. Moreover, if realised, it would also suggest a further notable slowdown in the wage sensitive services component of inflation, an outcome that would start to worry policymakers as Shunto wage negotiations draw closer. This is doubly true following news that the Japanese economy surprisingly fell into recession at the end of 2023, indicative that domestic demand conditions are softening,

a development that is hardly likely to stir price pressures. As such, whilst we continue to think that wage growth is likely to be strong enough to keep the BoJ on track for an April exit from YCC, next week's figures could well highlight that risks to this view are building, potentially pushing out the timing of policy normalisation in the eyes of the market, and therefore weighing on the yen as a consequence.

NATIONAL BANK OF HUNGARY

NBH set to accelerate

Whilst the NBH was reticent to deliver an acceleration in the pace of easing back in January, we suspect that this month is likely to be different. Indeed, we suspect that policymakers would have liked to cut faster last month all else being equal, but that several unexpected developments just prior to the policy meeting tipped the balance towards delivering just 75bps of rate cuts. That said, those risks that saw the NBH maintain the pace of easing last time out, namely an uncertain impact from changes to corporate lending rates and a spat with the government, have at least partially receded in the intervening period.

"As such, we fully expect Hungarian policymakers to pick up the pace of rate cuts and deliver 100bps of easing at next week's meeting."

Significantly, inflation continues to track below expectations, with January's 3.8% print some way below the market consensus of 4.3%, and well down on December's 5.5% reading. Even with upside risks from January price resetting, resurgent wage growth has failed to materialise. If anything, the pace of disinflation is likely to start causing major worries at the NBH, with it now looking likely that the Bank will undershoot their 3% \pm 1% target for a sustained period. In this context, real rates in Hungary look highly restrictive, meaning that a rapid easing from the current 10% policy rate level is more than warranted in our view. In the same vein, though not our base case, we can see an argument for rate cuts even larger than the 100bps we expect being delivered by the central bank. The story for the forint should therefore be one of weakness next week, with carry erosion set to weigh on the Hungarian currency. Under our base case this should see a modest selloff. A larger than expected cut from the NBH, however, could catch markets off guard. This latter outcome would inevitably trigger a sharp downward move for the forint, and as such is a notable risk heading into next week's announcement.

RESERVE BANK OF NEW ZEALAND

RBNZ should stay on hold, despite speculation

Despite being stuck at 5.50% since May 2023, it is surprising at first glance that consensus expectations in advance of next week's RBNZ meeting are not unanimously suggesting a further hold in policy rates. Nor are those sell side desks that have split from the pack suggesting rate cuts are on the cards either, a prospect that is increasingly coming into scope for central banks of other developed markets. Instead, there is speculation that the RBNZ may begin hiking rates again next week, with a small handful of analysts calling for a 25bp rate rise to be delivered by policymakers next Wednesday. We don't agree, and continue to expect the RBNZ to maintain rates at current levels. Nonetheless, the data supporting this position looks less clear cut than it did coming into the new year.

“As such, we are inclined to agree that this means that risks for resumption in rate hikes are none-zero, at least in the short term, but not enough to convince us that this should be our base case call at present.”

Taking account of the data, the main focus for both the RBNZ and markets remains inflation. This fell to 0.5% QoQ at the end of 2024, but remained stable at 4.7% on a YoY basis, still way above the RBNZ's 2% inflation target. Crucially, there is good reason to think that underlying inflation pressures are failing to ease. While unemployment rose in the fourth quarter of last year, it only did so by 0.1pp. This took the unemployment rate to 4.0%, well below the 4.3% expected by markets and suggestive that labour market conditions continue to remain tight. Even more so when accompanied by private sector wage data which also exceeded expectations. Having been projected to fall to 0.8% QoQ at the end of last year, down from the 0.9% growth seen in Q3, the data instead showed a 1.0% QoQ increase in private sector pay. This is translating into inflation expectations which over a 2-year horizon, remained above target at 2.50%, indicative that price pressures are set to remain sticky. That said, it is not just domestic data that is likely a concern for the RBNZ. Inflation in NZ is highly correlated with price growth in the US too, and this has shown signs of rebounding in recent data rounds. Together this paints a picture of persistent upside risks, and could potentially argue in favour of the RBNZ raising the policy rate next week.

We, however, are sceptical that more rate rises will be forthcoming. Retail sales fell sharply in the fourth quarter, indicative of slowing consumer demand, something that should progressively weigh on price growth over the coming months. And whilst inflation pressures remain elevated, they are still falling, with

the peak lagged impact of monetary tightening likely yet to be felt. So, whilst there is reason to be concerned by recent signs of inflationary stickiness, we think this argues for a higher for longer stance at present, rather than more monetary tightening. Most significantly though, we think this view is shared by the RBNZ, with a notable recent speech by Governor Orr largely echoing these points. Indeed, he went further and specifically highlighted the risk of overtightening, hardly the rhetoric we would expect from a central baker that is intent on hiking rates. As such, we expect the RBNZ to remain on hold next week, which could weigh on NZD as some speculative positioning is flushed out. But fundamentals are likely to continue supporting NZD more broadly though the year. With sticky inflation set to keep the RBNZ on hold, even as other developed market central banks pivot to cuts, this dynamic should all else being equal should support NZD appreciation in the longer run.

CANADIAN ECONOMY

Canada should escape recession, just

After spending much of the past few months consistently failing to offer a clear readthrough on the state of the economy, the week just gone finally delivered a data print that showed a definitive softening. In this case it was inflation data that came in weak, not only indicating that price growth slowed much faster than expected in January, but at a pace that policymakers at the BoC should find troubling. Stripping out the impact of shelter components directly linked to policy rates, Canadian inflation was running at just 1.4% YoY last month, and -2.3% on a 3mma annualised basis. To us this points to an economy that looks increasingly demand deficient, which should be weighing on real activity. As such we will be paying close attention to next week's key release out of Canada, namely Q4 GDP figures, as a further test of this thesis.

Unlike monthly readings which use output estimates, quarterly GDP figures are calculated using the expenditure method, which should offer a more accurate picture of Canadian growth, especially given that they are accompanied by inventories data. Specifically, risks to next week's growth figures suggest that they will paint a less rosy picture of the Canadian economy than monthly indicators have done in recent releases. Even that is not saying much, however, given that the two most recent prints for October and November have seen MoM readings of 0% and 0.2% growth respectively. As such, we think there is a chance for GDP figures to record a contraction in Q4, potentially showing that the Canadian economy has fallen into a technical recession, having already seen GDP fall -1.1% QoQ annualised in Q3. That being said, our base case for now is for a marginal expansion in activity, particularly following the retail sales data published on Thursday. This showed 0.9% MoM sales growth in December, which is difficult to square with the idea that the economy contracted at a pace sufficient to tip the Q4 reading over-all into negative territory.

Nonetheless, even if the Canadian economy escapes recession by the skin of its teeth next week, this would still appear to be at odds with other economic indicators, in particular PMIs. These have failed to print above 50 since May, with only January's print looking like the start of a turnaround. As we have noted previously, we are a little sceptical that GDP prints are giving a clear read on the underlying strength of the Canadian economy at present. In fact, with immigration running at current elevated levels, we think a per capita recession has been underway for some time, better reflecting domestic demand conditions. As such, then barring a significant upside surprise, next week's data is unlikely to change this view for us. Risks for the loonie though, look asymmetric in our eyes. Whilst an upside beat could offer a modest boost, we think the room for USDCAD to move lower is limited with little scope to price out further BoC rate cuts. On the flip side, an undershoot that confirms recession in Canada is likely to weigh heavily on sentiment, with the potential to trigger a sharp break higher for USDCAD on accelerated BoC easing prospects.

EUROZONE INFLATION

Eurozone inflation to soften once again

Next week's CPI data is set to be the last round of price growth figures released in advance of the March policy meeting. Whilst they are almost certainly not going to change the outcome of next month's decision, where we expect a hold in rates, it will be crucial in framing any discussion on the possibility of rate cuts in April. This remains our base case, at least for now. We continue to think that inflation will slow faster than anticipated by the ECB, in light of weak economic growth and soft domestic demand. The counterargument to this, advanced by ECB speakers in recent months, is that resilient wage growth continues to pose an upside risk to price growth. Policymakers have indicated a preference to wait until first quarter eurozone wage growth numbers are published, coming shortly after the ECB's meeting in April and suggesting that Summer is the most likely time for the ECB to deliver its first rate cut. But if inflation continues to track below expectations, growth is poor and other labour market indicators are beginning to ease, this should increasingly tip the balance of risks towards an earlier start to policy easing.

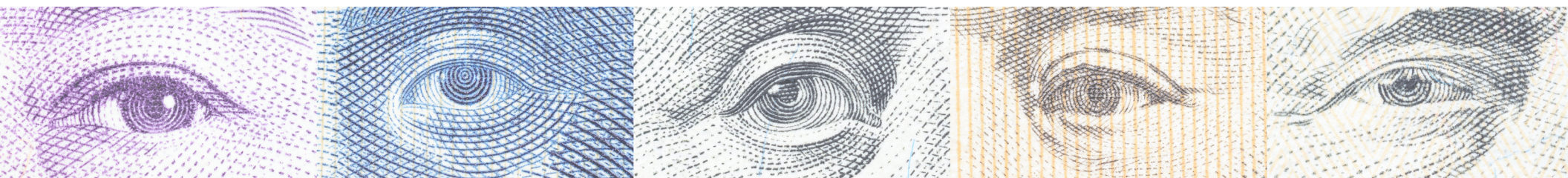
Looking forward to next week's data, consensus expectations project a headline CPI reading of 2.5% YoY for February, down three tenths on last month's 2.8% print. Core inflation is set to fall too, with markets looking for a

decline from January's 3.3% reading, down to just 2.9% this month. If realised, this would leave both headline and core price growth tracking some way below recent ECB forecasts and should give ECB staff confidence to downgrade their projections at the upcoming March meeting, realigning them with the recent softer than expected outturns. This would naturally pose a challenge to ECB hawkishness, which if retained, would sound much less credible in the face of yet another downgrade to inflation forecasts.

“Crucially though, a renewed downturn in the wage sensitive services inflation looks likely as well.”

This should be a notable point of focus for ECB policymakers given the expressed worries about feedback between wages and price growth. On this score, other recent evidence remains somewhat mixed. This has left the inflation outlook sufficiently muddled for policymakers to stick with calls for a summer start to rate cuts. On the one hand, Q4 wage data has pointed to the peak for pay increases having already passed, with even ECB President Lagarde noting that she was taking encouragement from them. On the other, some indicators such as the flash PMI reports for February suggested that resilient wage growth may be sparking a renewed uptick in inflation pressures in some eurozone countries. Given this, a fall in the services measure of inflation this month is key if policymakers are to ease rates in April, especially given that temporary distortions are likely in March price growth numbers, due to Easter effects. Without this, there is likely to be too much uncertainty for policymakers to begin cutting rates until the June meeting at the earliest.

Nevertheless, if the data prints in line with expectations, this will leave inflation once again coming in softer than expected across a broad range of measures. To this point, it was notable from the recently published January ECB minutes, that the risks identified by the ECB look increasingly skewed to the downside in our view. Next week's data should add further evidence that this scenario is playing out. Yes, the ECB may have concerns about the pass through of wage growth. But these look unfounded if pay pressures are failing to result in an uptick in output prices. Married to growth indicators, that continue to be unambiguously weak, this would suggest that policymakers are increasingly at risk of leaving rates too high for too long, causing unnecessary economic damage. As such, assuming the ECB is as data dependent as they claim, we think next week's inflation data should be another point arguing in favour for an April start to policy easing.



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