

FX, Rates and Commodities at a glance

As we head into a year set to be characterised by lower market rates, a weaker US dollar, and the potential for ongoing geopolitical tensions to persist, our team outlines their top calls for markets over the coming months



FX

The mood in the FX market can best be described as mixed. The dollar is recovering some of its late 2023 losses as the scale of the expected Federal Reserve's easing cycle is pared back. The consensus view, however, remains that 2024 will be the year of a weaker dollar. As always, timing is everything.

Our preference is that the next major leg of the dollar decline probably comes through late in the second quarter as the Fed launches into its easing cycle. Rate spreads should eventually prove positive for EUR/USD – especially as European Central Bank (ECB) easing expectations seem far too aggressive – but again, it should be in the second half that the currency pair embarks on its rally to 1.15. Until then, we expect choppy conditions for the major currencies and also expect investors to continue their search for yield. Perhaps it is no surprise that some of the strongest currencies so far this year have been the Hungarian forint, the Mexican peso and the Indian rupee – all of which are the highest yielding currencies in their respective trading blocs.

Chris Turner

Rates

We continue to expect market rates to get lower in 2024, but let's take this one step at a time. Evidence is mounting for a step higher in market rates first. The eurozone economy remains one characterised by 3% inflation, and US labour market angst remains low.

In a way, rate markets have jumped the gun. Markets are just not yet seeing enough from the macro data to validate the dramatic fall in market rates seen at the tail end of 2023. The 10yr Treasury yield is now just around 4%, while the 10yr term premium is back in negative territory at around -20bp. Similar holds true for the 10yr Bund yield. A negative term premium means that the level of rates is being dominated by the future path of short-term rates. There is no compensation for taking on duration. This isn't to say that 10yr rates cannot fall – they can, of course. They can overshoot to the downside, and they will. For now, a drift higher in rates is right before we get to a proper rate cutting environment.

Padhraic Garvey

Commodities

Despite tensions in the Middle East and additional voluntary OPEC+ cuts, ICE Brent settled a little more than 10% lower in 2023 – its first annual decline since 2020. The oil balance is looking increasingly more comfortable for 2024 with a small surplus over the first half of the year, before returning to deficit over the second half. Non-OPEC+ supply growth has been stronger than expected, which has helped loosen the market. However, if current additional voluntary cuts from OPEC+ are rolled over into the next quarter, this will reduce the scale of surplus and provide some support to prices. Furthermore, tensions in the Middle East have been growing recently. While this is currently not leading to any supply disruptions, there are clear risks that escalation could potentially start to have a direct impact on the oil supply.

The European gas market is also looking increasingly comfortable, with gas storage more than 86% full at the end of December, above the 83% seen at the same stage last year. Gas demand remains under pressure, which has ensured comfortable storage. In the absence of any supply shocks or demand spikes, our balance sheet suggests that Europe will now likely exit the 2023/24 heating season with storage more than 50% full, which would mean that significant upside in gas prices is unlikely.

Warren Patterson

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

Warren Patterson

Head of Commodities Strategy

Warren.Patterson@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.