

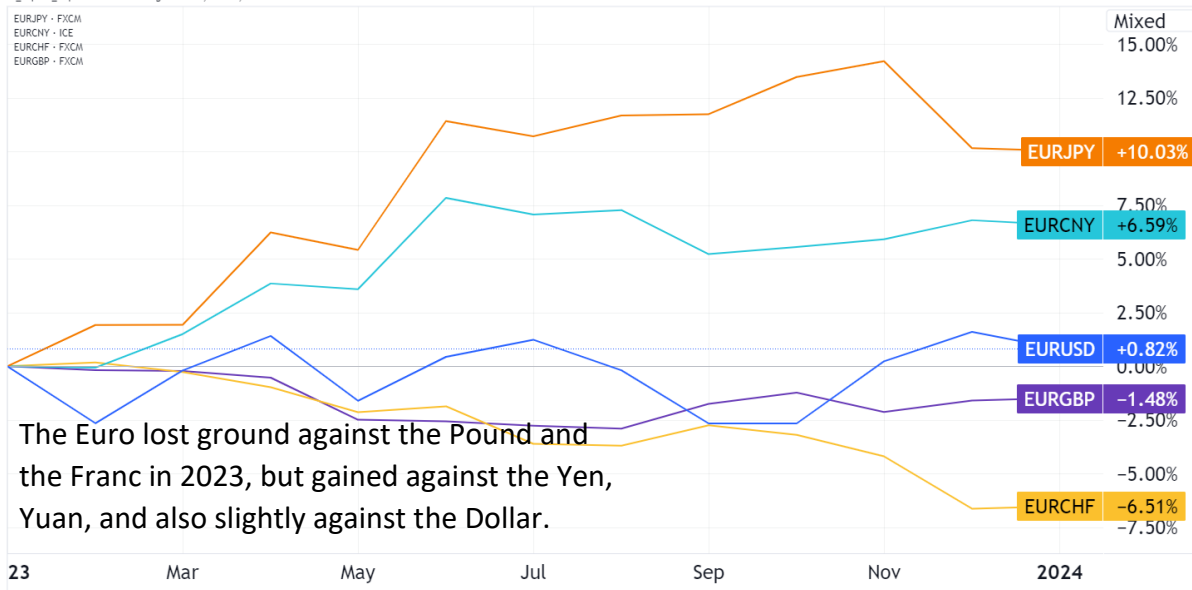


Euro: Tailwind for 2024

The interest rate advantage of the dollar diminishes, but the Euro still remains vulnerable.

The higher interest rate level in the US and the relative strength of the US economy spoke in favor of the dollar in 2023. However, the EUR/USD exchange rate did not come under pressure during the year, ending slightly higher. This is due to the changed expectations, which have recently shifted in favor of the Euro. Unlike in 2022, the interest rate advantage of the dollar did not increase further in 2023. On the contrary, the ECB followed the US Federal Reserve and significantly raised its key interest rate as of September 2022. The interest rate differential between the US and the Eurozone has decreased in 2023 but still exists.

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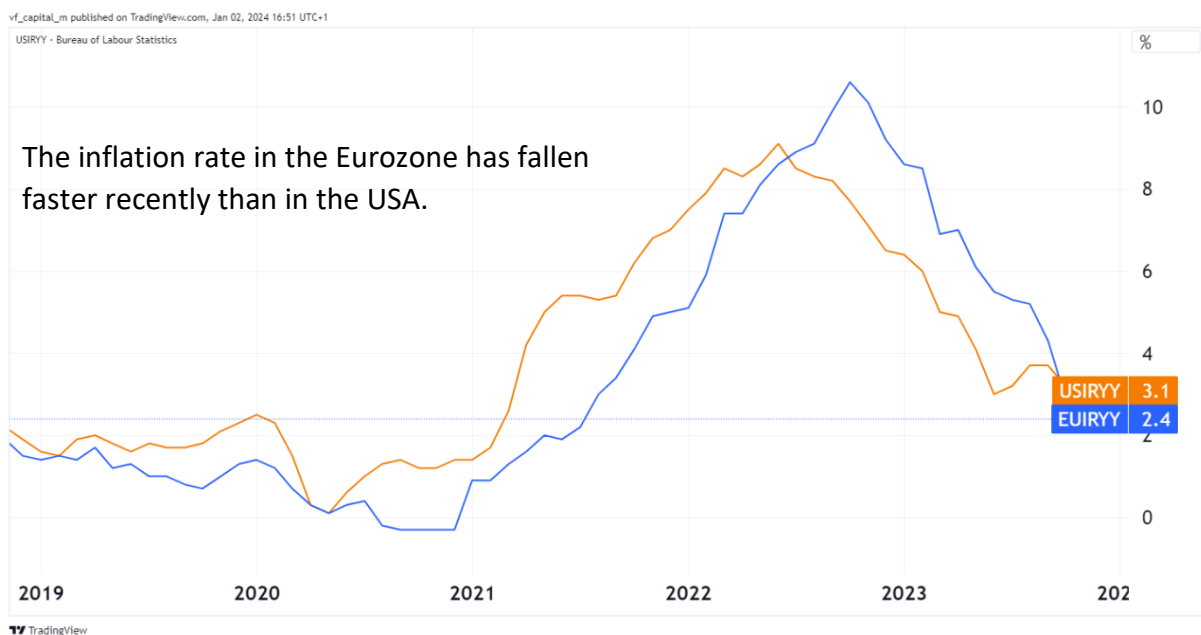


The Euro lost ground against the Pound and the Franc in 2023, but gained against the Yen, Yuan, and also slightly against the Dollar.

Annual Outlook: EUR/USD

Inflation Rate in the Eurozone Falls Significantly:

What has recently and is expected to continue to move the EUR/USD exchange rate is the anticipation of interest rate changes. It is crucial which central bank will act faster to apply the brakes to interest rates. Forecasts in this regard are changing. Most experts believe that the US Federal Reserve will react more quickly to interest rate cuts and may potentially lower the key interest rate for the first time as early as March. Subsequently, there could be an additional quarterly rate cut of a quarter percentage point each. On the other hand, the ECB is expected to make the first rate cut in June. However, this assumption is uncertain because the inflation rate in the Eurozone is decreasing faster than in the US, providing the European central bankers more leeway to support the struggling economy with rate cuts.



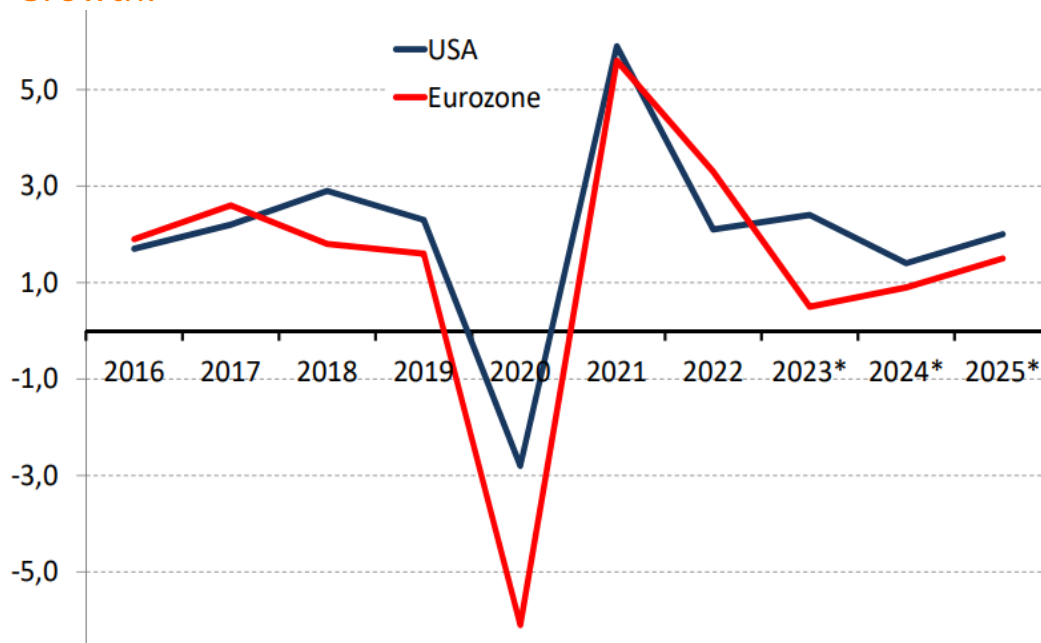
Euro Vulnerable Amid Increasing Risks:

Expectations regarding the readiness of the ECB for rapid interest rate cuts seem exaggerated, as from the central bankers' perspective, pricing pressure still exists. The decrease in the inflation rate is due to the base effect, and the core inflation rate remains high at 3.6%, and it is not expected to recede quickly due to significantly increasing wages. Nevertheless, expectations of interest rate cuts temporarily weighed on the Euro at the end of 2023, as well as the potential for the US to withdraw support for Ukraine. Overall, the Euro remains vulnerable to an escalation of geopolitical risks, while the dollar becomes a safe haven in such times.

Annual Outlook: EUR/USD

However, the economic data currently supports the Euro, as the US economy cooled in the fourth quarter, whereas economic data from the Eurozone has displayed relative robustness. There are even signs of stabilization in the German economy. This is reflected in the growth projections for 2024, with Eurozone growth expected to slightly exceed the weak level of 2023, while US growth more than halved.

GDP-Growth:

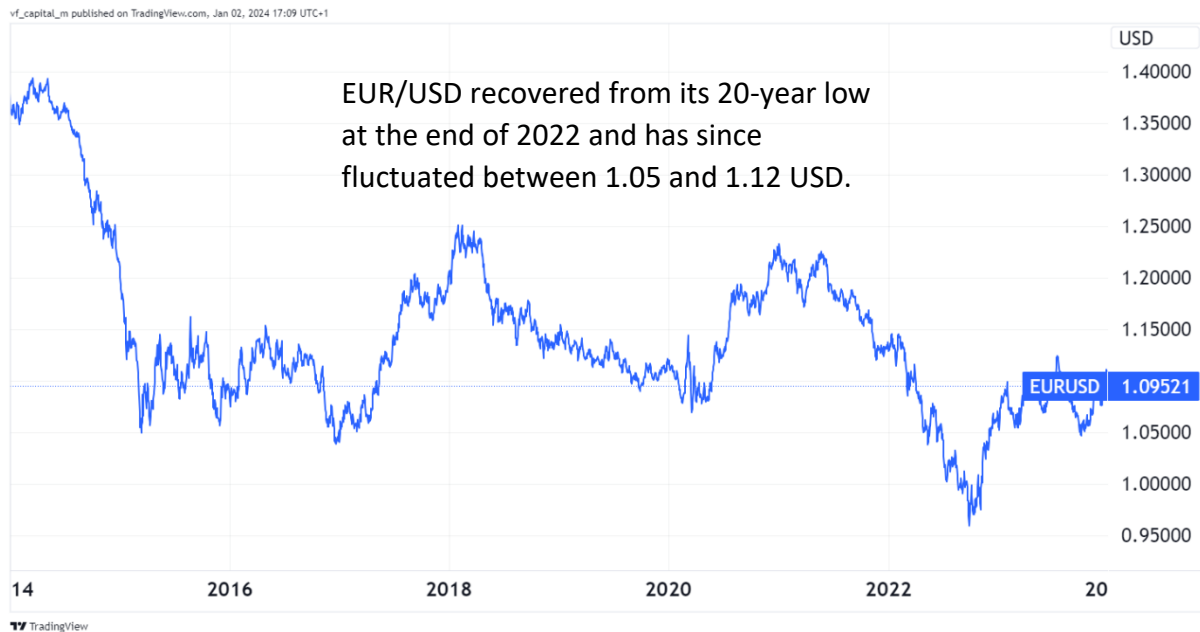


My Conclusion:

The development of the interest rate differential favors a rise in EUR/USD, while the stronger US economy supports the dollar. However, this could change in 2024 if the growth advantage of the US diminishes. The odds for this happening are not unfavourable. EUR/USD is expected to retest the old resistance at 1.15 USD over the course of the year. It will be determined there whether a further upward breakout is possible.

Annual Outlook: EUR/USD

EUR/USD (10 years):



Eurozone:	2023e	2024e	2025e	USA:	2023e	2024e	2025e
GDP growth rate*	+0.5	+0.9	+1.5		+2.4	+1.4	+2.0
Inflation rate*	+5.4	+2.6	+2.2		+4.1	+2.5	+2.4
Current account balance**	+2.2	+2.4	+2.6		-3.0	-3.0	-2.5
Budget balance**	-3.5	-2.9	-2.7		-8.0	-7.5	-7.0

*Percent change from previous period **Percent of GDP

Positive and negative influences on the EUR/USD in 2024:

Positive	Negative
<p>The ECB delays its interest rate turn, while the Fed significantly lowers interest rates.</p> <p>The Eurozone economy is surprisingly robust.</p> <p>The global economy is performing better than expected.</p>	<p>The US capital market remains attractive for investors, thanks to the higher interest rates.</p> <p>Market uncertainty is on the rise.</p> <p>The dollar's interest rate advantage persists.</p>