



MONEX

Week Ahead

29th January - 2nd February 2024

Focus turns back to the Fed

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INTRODUCTION

After a relatively quiet start to the year, this week saw central bank action begin to kick off in earnest, with announcements from the BoJ, PBoC, BoC, Norges Bank, CBRT, SARB and ECB all taking place. Notably, a cut to the RRR by the PBoC early in the week provided upside support to growth sensitive FX, whilst indications from the BoJ kept an exit from NIRP on track. The BoC and ECB decisions too are also worthy of a mention. Both central banks held rates, but delivered commentary that was more dovish than expected, reinforcing our call that both will also begin cutting rates in April. Whilst the raft of central bank decisions in large part kept market attention focused on developments outside the US, this week also saw the release of US Q4 GDP figures, which once again surprised to the upside, delivering 3.3% QoQ annualised growth. This was all the more surprising given that the accompanying Q4 PCE reading landed at just 2.0%, the second such print in a row. Whilst we don't think this opens the door to Fed rate cuts just yet given some remaining signs of inflationary persistence, a repeat print in April likely would.

Next week should see monetary policy continue as a major short term driver for FX markets. Most significantly the Fed is set to announce its first policy decision of the year. We do not expect a repeat of December's meeting where a surprisingly dovish Powell triggered an acceleration in Fed easing bets. Instead a more circumspect approach this time around should help the dollar stay supported. Outside the US, a round of European growth and inflation data is likely to hold few surprises. Price growth should continue to cool, whilst the eurozone economy likely continued flirting with contraction, both of which should weigh on the euro. Decisions from the BoE, Riksbank and the BCB, however, should do little to rock the boat. The first two of these are set to stay on hold, the latter will continue with its string of 50bp rate cuts. Following on from these decisions, attention returns to the US, with a jobs report due on Friday. In our view, this is likely to confirm Fed messaging from earlier in the week, suggestive of a May start to rate cuts, an outcome that see the dollar heading into next weekend on the front foot.

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ECONOMIC CALENDAR

All times in GMT

Monday 29/01

Time	Country	Event	Period	Estimate	Prior
00:00	Singapore	Singapore MAS January 2024 monetary policy statement			
07:00	Sweden	GDP indicator MoM (YoY)	Dec		0.2% (0.9%)
		GDP indicator QoQ (YoY)	4Q		0.0% (-1.2%)
		Retail sales MoM (YoY)	Dec		-0.5% (-1.7%)
09:00	Switzerland	Domestic (total) sight deposits CHF	Jan 26		464.4b (473.4b)
14:30	US	Dallas Fed manufacturing activity	Jan		-9.3
20:00	New Zealand	RBNZ Chief Economist speaks on policy challenges and recent data			
23:30	Japan	Jobless rate	Dec	2.5%	2.5%
		Job-to-applicant ratio	Dec	1.28	1.28
TBA	Germany	Retail sales MoM (YoY)	Dec	1.0%	-2.2% (-1.5%)

Tuesday 30/01

Time	Country	Event	Period	Estimate	Prior
00:01	UK	BRC shop price index YoY	Jan		4.3%
00:30	Australia	Retail sales MoM	Dec	-2.0%	2.0%
06:30	France	GDP QoQ (YoY)	4Q P	-0.1%	-0.1% (0.6%)
		Consumer spending MoM (YoY)	Dec		0.7% (-1.1%)
08:00	Switzerland	KOF leading indicator	Jan		97.8
	Sweden	Economic tendency survey	Jan		84.3
		Consumer confidence	Jan		74.5
	Spain	GDP QoQ (YoY)	4Q P	0.2%	0.3% (1.8%)
		CPI MoM (YoY)	Jan P		0.0% (3.1%)
		Core CPI YoY	Jan P		3.8%
09:00	Italy	GDP QoQ (YoY)	4Q P	0.0%	0.1% (0.1%)
	Germany	GDP QoQ (YoY)	4Q P	-0.3%	-0.1% (-0.4%)
09:30	UK	Consumer credit YoY	Dec		8.60%
		Mortgage approvals	Dec		50.1k
10:00	Eurozone	GDP QoQ (YoY)	4Q A	-0.1% (0.1%)	-0.1% (0.0%)
		Economic confidence	Jan	96.2	96.4
11:25	Brazil	Central bank weekly economist survey			
12:00	Mexico	GDP QoQ (YoY)	4Q P		1.1% (3.3%)
13:00	Hungary	Central bank rate decision		9.75%	10.75%
15:00	US	Conference Board consumer confidence	Jan	112.5	110.7
		Conference Board expectations	Jan		85.6
		JOLTS job openings	Dec		8790k

Time	Country	Event	Period	Estimate	Prior
15:30	US	Dallas Fed services activity	Jan		-8.7
23:00	Singapore	Unemployment rate	Dec	2.0%	2.0%
	UK	Nationwide house prices MoM (YoY)	Jan		0.0% (-1.8%)
23:50	Japan	Retail sales MoM (YoY)	Dec	0.1% (4.9%)	1.1% (5.4%)
		Industrial production MoM (YoY)	Dec P	2.5% (0.1%)	-0.9% (-1.4%)
		BOJ summary of opinions from January's monetary policy meeting			

Wednesday 31/01

Time	Country	Event	Period	Estimate	Prior
00:00	New Zealand	ANZ business confidence	Jan		33.2
00:30	Australia	Private sector credit MoM (YoY)	Dec	0.4%	0.4% (4.7%)
		CPI QoQ (YoY)	4Q	0.8% (4.3%)	1.2% (5.4%)
		CPI YoY	Dec	3.7%	4.3%
01:30	China	Composite PMI	Jan		50.3
		Manufacturing PMI	Jan	49.2	49
		Non-manufacturing PMI	Jan	50.6	50.4
05:00	Japan	Consumer confidence index	Jan	37.5	37.2
07:30	Switzerland	Retail sales YoY	Dec		0.7%
	Hungary	PPI MoM (YoY)	Dec		-0.8% (-6.6%)
07:45	France	CPI MoM (YoY)	Jan P	-0.1% (3.2%)	0.1% (3.7%)
		PPI MoM (YoY)	Dec		2.4% (0.3%)
08:30	Hong Kong	GDP QoQ (YoY)	4Q A	0.4% (4.6%)	0.1% (4.1%)
08:55	Germany	Unemployment claims rate	Jan	5.9%	5.9%
09:00	Poland	GDP YoY	2023	0.4%	5.1%
	Switzerland	UBS survey expectations	Jan		-23.7
12:00	US	MBA mortgage applications	Jan 26		3.7%
	Brazil	Unemployment rate	Dec	7.6%	7.5%
13:00	Germany	CPI MoM (YoY)	Jan P	0.3% (3.0%)	0.1% (3.7%)
13:15	US	ADP employment change	Jan	150k	164k
13:30	Canada	GDP MoM (YoY)	Nov		0.0% (0.9%)
19:00	US	FOMC rate decision (upper bound)		5.50%	5.50%
19:30	US	Fed Chair holds press conference following FOMC meeting			
21:30	Brazil	Selic Rate		11.25%	11.75%
TBA	Hong Kong	GDP YoY	2023 A	3.4%	-3.5%

Thursday 01/02

Time	Country	Event	Period	Estimate	Prior
00:30	Australia	NAB business confidence	4Q		-1
01:45	China	Caixin manufacturing PMI	Jan	50.9	50.8
08:00	Hungary	Manufacturing PMI	Jan		52.8
	Poland	S&P Global manufacturing PMI	Jan	48.0	47.4
	Norway	Norges Bank Deputy Governor Longva speaks in Drammen			
08:30	Sweden	Riksbank policy rate decision			4.00%
09:00	Norway	DNB/NIMA PMI manufacturing	Jan		51.7
10:00	Eurozone	CPI MoM (YoY)	Jan P	-0.3% (2.7%)	0.2%
		Core CPI YoY	Jan P	3.2%	3.4%
		Unemployment rate	Dec		6.4%
12:00	UK	Bank of England policy rate decision		5.25%	5.25%
13:00	Brazil	S&P Global manufacturing PMI	Jan		48.4
13:30	US	Unit labour costs	4Q P	2.6%	-1.2%
		Initial jobless claims	Jan 27		214k
		Continuing claims	Jan 20		1833k
14:30	Canada	S&P Global manufacturing PMI	Jan		45.4
15:00	US	ISM new orders	Jan		47.4
		ISM employment	Jan		47.3
		ISM manufacturing	Jan	47.5	47.2
	Mexico	S&P Global manufacturing PMI	Jan		52
		Remittances total	Dec		\$4908.1m
		Banxico economist survey			
21:00	New Zealand	ANZ consumer confidence index	Jan		93.1

Friday 02/02

Time	Country	Event	Period	Estimate	Prior
09:00	Norway	Unemployment rate	Jan		1.9%
09:15	Eurozone	ECB's Centeno speaks			
11:30	Eurozone	ECB's Lane speaks			
12:00	Brazil	Industrial production MoM (YoY)	Dec		0.5% (1.3%)
	Mexico	Private consumption YoY	Nov		5.2%
12:15	UK	BOE's Huw Pill speaks			
13:00	Singapore	Purchasing managers index	Jan		50.5
13:30	US	Change in nonfarm payrolls	Jan	185k	216k
		Change in private payrolls	Jan	148k	164k
		Average hourly earnings MoM (YoY)	Jan	0.3% (4.1%)	0.4% (4.1%)
		Unemployment rate	Jan	3.7%	3.7%
		Underemployment rate	Jan		7.1%

Time	Country	Event	Period	Estimate	Prior
15:00	US	University of Michigan sentiment	Jan F	78.8	78.8
		University of Michigan expectations	Jan F		75.9
		Factory orders	Dec	0.5%	2.6%

DATA PREVIEWS

Fed preview: Dialling it back

In the first of two events that is likely to keep market focus on the US next week, the Fed delivers their first rate announcement of the year at 19:00 GMT on Wednesday. Without a Summary of Economic Projections to be delivered at this meeting, and rates expected to remain unchanged at 5.25-5.50%, the spotlight will be on Fed Chair Powell and his comments. Key for markets will be the extent to which Powell runs back his December messaging. We suspect his comments last time out failed to hit the mark with traders as intended. Indeed, Powell seemed to confirm as much in the aftermath, suggesting that he was a little puzzled by the market reaction. Just to illustrate how wild the market reaction was, an indication that the Fed expected to cut three times in 2024 and a suggestion that rate cuts may have been discussed by Powell, saw seven rate cuts priced by markets at one point over the Christmas holidays with the first of those coming in March. Whilst Powell's comments undoubtedly marked a dovish shift in tone, in light of resilient data these observations were not sufficient to justify the rapid expectations move in our view.

“Fortunately for the Fed, these have now retraced to more sensible levels, with markets now pricing between five and six cuts this year, though the March meeting remains a toss-up.”

Heading into this latest meeting there will be two key challenges for the Fed to consider. The first of these is how to interpret the recent set of data. December's CPI release, published earlier this month, modestly overshoot expectations to grow by 0.3% MoM. Not just that, but headline measures masked much of the underlying strength, with the details of December's report reading much firmer in our view. Similarly, the labour market continues to run hot at first glance. Unemployment remains close to record lows and the most recent nonfarm payrolls showed 216k jobs added in December, in both cases indicating a labour market that would ordinarily be too tight to be confident

of sustainably returning price growth to target. That is all before we even get to the Q4 GDP figures, which showed the US economy growing by 3.3% in the final quarter of last year on a QoQ annualised basis, much hotter than the 2% expected by markets. All of this should, when taken together, point to sticky inflation pressures and the need for Fed policy to stay high for some time longer. But notably, the Fed's preferred core PCE measure of underlying inflation has now printed at 2.0% in two successive quarters, inflation continues to slow when zooming out, and there is evidence that the labour market pressures are easing at the margin. Viewed this way, whilst upside risks remain, it would seem the Fed has likely done enough for inflation to stick at 2% over the medium term, warranting a pivot to looser policy as the remaining upside inflation risks subside. For us, this means that a March rate cut still looks too early, making a May start date for policy easing most likely in our view.

For Fed officials this poses a tricky balancing act, and as such a communications challenge. This in turn is the second of the two considerations we see officials facing next week. Given the evolution of data the Fed will almost certainly wish to begin easing policy in the first half of this year. But the recent market reaction suggests a preference by traders to attempt to front run any new hint in this direction. Give too strong a suggestion that rate cuts are coming soon then and markets move to prematurely ease financial conditions, reigniting inflation pressures and undoing the Fed's hard work to date. As such, unless the Fed is seriously considering a March rate, we suspect that Chair Powell will attempt to walk back some of December's dovishness, albeit without abandoning his core messaging entirely. If he gets the balance right this should see markets aligning with our base case, looking for a first rate cut in May and cuts five in total for the year. This should be positive for the dollar, and if delivered could well see EURUSD trading down into the 1.07s. Get it wrong however, a redux of December's price action could see traders reaccelerate Fed easing bets, an outcome that could well leave EURUSD flirting with 1.10.

Eurozone data: A new round of eurozone inflation and GDP is set to surprise no one... once again

After the release of preliminary PMIs for January and the ECB's first meeting of the year, the eurozone's upcoming GDP and inflation data are unlikely to change the narrative for traders next week. So far this year, data on the state of the eurozone economy has been gloomy to say the least. At the beginning of the month, the release of Germany's GDP for 2023 grabbed everyone's attention, confirming that a long-anticipated recession had finally arrived. This reading not only showed that the German economy contracted by 0.3% last year, a remarkable drop from the 1.8% expansion recorded in 2022. But it also added further support that the bloc is set for a period of protracted economic weakness as indicated by PMI reports in recent months. Whilst these have suggested a sharp recession is unlikely, the risks of a prolonged recession remain elevated. Indeed, in the specific case of Germany, several economists are already suggesting that this could be the first recession of at least two years since 2009.

We see little reason for this outlook to change with next week's data either. Admittedly, inflation should broadly cool across the eurozone, with recent rises the result of base effects rather than a pickup in underlying inflation pressures. That said, risks are potentially tilted to the upside, with January PMIs notably flagging an increase in price pressures. Where eurozone PMI reports have been definitive though, is on the slowdown in economic activity. France, Germany and the eurozone as a whole should all be deep in economic contraction based on survey readings, and probably have been for some time. As such, we suspect the upcoming round of Q4 GDP figures is unlikely to offer many positives. Indeed, whilst Germany is expected to deliver a QoQ contraction of -0.3% next week, it is a little surprising to see consensus predicting that the French economy will only flatline. If more timely indicators are to be believed, both economies should have shrunk in the fourth quarter.

“More to the point, it is likely that the eurozone economy is slowing faster than ECB officials are willing to publicly acknowledge, and that as a result, the inflation profile is less favourable than many people seem to think, despite some upside risks.”

Indeed, this likely underpinned what appeared to us as a dovish shift from the ECB this week, one that we think opened the door to rate cuts from April. In this context, confirmation of further eurozone growth weakness could well be desirable for ECB policymakers on balance, not only in cooling price growth faster than expected, but also allowing them to credibly move away from a prior commitment to start easing policy in the summer and not earlier.

BCB preview: Solid headline inflation could lead Copom to become more hawkish in the margin

The last BCB Monetary Policy Committee (Copom) meeting unanimously decided to cut the Selic rate by 50 basis points for the fourth consecutive time, bringing it to 11.75%. This decision, widely anticipated by traders and analysts, showed once again the bank's intention to keep the pace of cuts intact, not just in 2023 as previous statements suggested, but in our view also for the foreseeable future as the Bank's base case continues to play out. Overall, the rate statement was slightly more dovish than in November, though the BCB's guidance was suggestive that the pace of rate cuts will be maintained after the January meeting. Indeed, our overall impression is that policymakers believe the scope for cuts could have widened relative to previous meetings based on more favourable inflation developments in recent months, with the year-on-year reading in December marking the third consecutive decline, and the explicit acknowledgement in the statement that the external environment had become “less adverse”. We would however note that the December HICP fell only marginally, from 4.68% in November to 4.62%, and that was likely due to positive base effects given the rebound in the average monthly inflation rate from 0.20% in Q3 to 0.36% in Q4. As such, despite recent messaging, we think the debate on what should be the optimal pace of monetary easing by the BCB in the coming months is likely back on the table.

It seems clear to us that inflation concerns in Copom have eased, at least at the margin. However, we think upside risks to the inflation profile could start to limit the optimism of policymakers, who continue to expect further cuts “of the same magnitude” at upcoming meetings in the early part of 2024. Signs that inflation pressures could rebound casts some doubt on the Bank's hypothesis that the mini-inflationary peak that started after the summer months has passed

While some of the most inflationary categories may not pose an excessively high risk of inflation worsening in Brazil, we believe that given an uncomfortably high level of core inflation in services, the headline index may continue to decline more slowly than many think. Even so, given the recent easing of fiscal concerns, not all risks remain on the upside. For now at least this should be enough to see the central bank stick to its forward guidance. This has been clear, coming from both Governor Campos Neto and other Bank officials, suggesting that there is insufficient evidence for the authorities to deviate from their current roadmap at present.

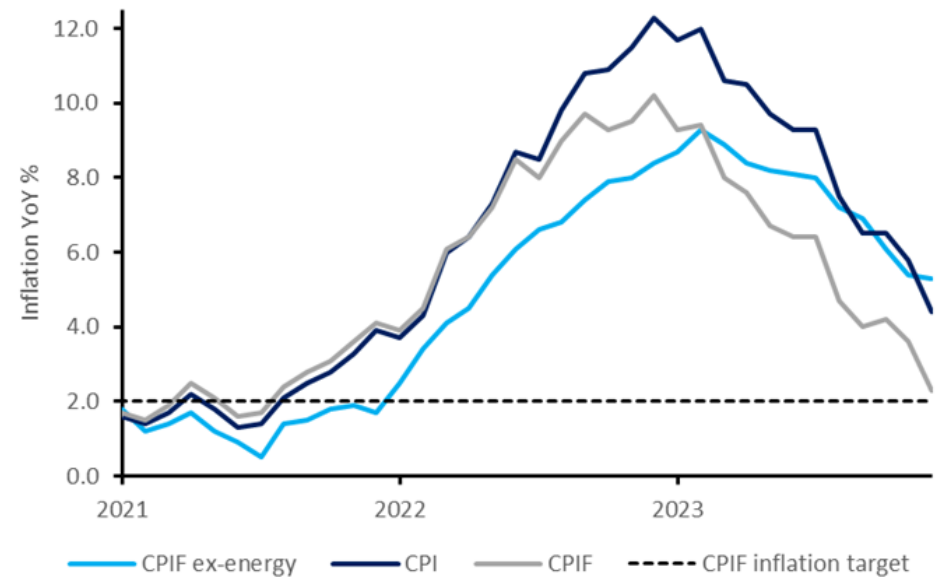
Consequently, we look for the BCB to cut the Selic rate at the 31 January meeting by a further 50bps, taking it to 11.25%. That said, we believe that in order to see a continuation or even an acceleration of the pace of cuts during the second half of the year, we would need to see at least a continued sharp fall in core services inflation, something that is difficult to square with the narrowing output gap. Therefore, following the latest HICP-15 inflation data for January, we see risks as tilted in favour of a slowdown in the pace of cuts towards the end of the year, if the upward price pressures seen in recent months persist.

Riksbank preview: Slow progress still better than no progress

The Riksbank is set to deliver its opening decision of 2024, and the first in its shift to an eight meeting a year schedule, on February 1st. Given the move to this new meeting programme, next week's announcement is set to be accompanied by a monetary policy report, with only the decision and a statement set to be published. As such whilst we expect that policymakers will welcome recent macroeconomic developments as heading in the right direction, little meaningful change is likely to be delivered. All told, this should see policymakers maintain policy rates at 4.00%, whilst we think any substantial change in guidance will likely be punted to the March meeting.

Looking at the data, economic conditions continue to improve, warranting little change in approach by policymakers in our view. Inflation fell to 4.4% YoY in December last year, down from a peak of 12.3% recorded a year earlier. And whilst the krona has weakened recently, the EURSEK rate remains more than 5% above its all-time lows of late last year, levels that are unlikely to trigger a new round of concerns around imported inflation. Admittedly core inflation remained more elevated than headline measures, with the Riksbank's CPIF ex-energy measure printing at 5.3% YoY and 0.7% MoM last month. Moreover, growth, while weak, has outperformed expectations, reducing the need for urgent rate cuts. Taken together, with price growth trending in the right direction and upside risks fading, this argues for staying the course in our view, maintaining the Bank's current rate stance through this last leg of disinflation.

CPIF inflation has almost returned to target, but underlying inflation pressures should keep the Riksbank on hold for the time being



That said, we are deeply sceptical of the Riksbank's long term forecast for policy rates. The current iteration shows not only a residual probability of one more hike, but also that no rate cuts are set to be delivered this year. This seems improbable to us, a view we suspect is shared by Riksbank policymakers.

“Indeed, the CPIF inflation measure has virtually returned to the Riksbank's target of 2%, something we think has contributed to a recent softening in MPC rhetoric, in turn suggesting a continuing evolution of Riksbank thinking.”

As such, a continued steer towards earlier rate cuts, though not explicit guidance, wouldn't come as a surprise next week, meaning that this upcoming decision should have limited impact for FX markets. In our view, this policy easing is likely to begin in summer, supported by the shift in messaging and the improving data, but confirmation of this looks likely to have to wait for the March meeting.

BoE preview: Nothing to see from the BoE

Sandwiched between two big events on the other side of the pond next week, the BoE's first policy announcement of the year is likely to find itself a little overshadowed, though this is unlikely to trouble policymakers on Threadneedle street. There is little doubt that rates will remain on hold when the decision is announced. Instead, all attention will be focused on the monetary policy report accompanying the decision, and on Governor Bailey press conference. In our view the first of these is likely to be the more informative, Bailey has been notably reticent to offer meaningful forward guidance in his recent communications. The latest round of forecasts from Bank staff should serve to tell the story in any case.

We expect to see a downgrade to the Bank's inflation projections in light of data that undershot the previous set of forecasts significantly, and likely also confirmation that the UK economy fell into recession at the end of 2023. Even so, following a string of PMI releases showing the UK economy returned to expansion in recent months, the poor end to last year is likely to be more than offset by upgraded forecasts for growth in 2024. This should provide ample ammunition for the MPC to argue against imminent rate cuts, especially with underlying inflation pressures remaining elevated and still some way above levels necessary for headline price growth to cool back to the BoE's 2% target.

"In principle the MPC could take the opportunity to turn more neutral in its guidance next week, motivated by the likely forecast downgrades and retreating upside inflation risks."

That said, we don't think they will. Our read of the BoE suggests that policymakers would like to keep policy on hold until the second half of the year. Specifically, given the attention that policymakers have paid to the passthrough of wages to inflation over the past year, the MPC will likely want any concerns around the impact of April's rise in the National Living Wage assuaged by data before moving to cut rates. Given this is unlikely until the August meeting, a more neutral shift in messaging at this point could see markets prematurely pricing in rate cuts, undoing the impact of rate rises with loose financial conditions. As such, whilst this forms a downside risk for sterling in the short run next week, we expect the MPC to keep stum on this point, and GBP hold its ground as our base case. If delivered, this should keep the BoE on track to deliver four rate cuts this year, starting in August, in line with our long-standing call.

Nonfarm payrolls: No news is good news

In the second part of next week's US double header, Friday brings with it the January nonfarm payroll figures, alongside a range of other updates on the health of the US labour market. In short, we think this set of figures will do little to change the narrative around the US economy. Partly this is a result of the release coming just two days after a Fed decision. With another set of numbers due before the Fed meets again in March, markets will likely place less emphasis on this release, at least relative to normal, unless it delivers a major surprise. On this front, we don't think it will. Markets currently anticipate a nonfarm payrolls print of 185k. Whilst this is still too hot for the Fed to be confident of inflation reaching 2% on a sustainable basis, it also marks a further move in the right direction when compared with November's 216k print.

"A similar story is likely to hold for the unemployment rate too. This is expected to rise 0.1pp to 3.8%. Admittedly still low by historical standards, this would also mark another step in the right direction, though again yet to hit a level where the Fed can feel comfortable."

Better news for FOMC officials is likely to be found elsewhere in next week's release. In particular, average hourly earnings are expected to cool on a MoM basis, with consensus expectations looking for a 0.3% print. This would see the streak of prints between 0.3% and 0.4% MoM extend for yet another month, having failed to fall outside this range since July 2022. The consequence is that annual hourly wage growth has fallen to 4.1% YoY, and is now at a level consistent with the Fed's inflation target. Similarly, expectations for rises in both hours worked and the participation rate both point to a supply side expansion that should further tamp down inflation pressures. All told, this is unlikely to present a different message than we expect from the Fed earlier in the week. That is, the economy remains robust, inflationary pressures continue to cool, but upside risks to price growth returning to target continue to persist for now. If so, this should reinforce our call that the Fed is unlikely to ease until May, an outcome that we expect should offer some dollar upside heading into the weekend.

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