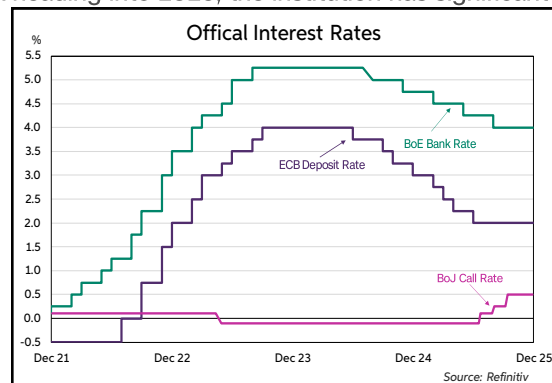


Fed hawks could remain in the ascendency

- **The Fed cut rates as expected, by 25bps on Wednesday, but there now is a clear division within the Federal Open Market Committee (FOMC), and between its shaky consensus versus market expectations.** This was the third rate cut from the central bank in 2025, totalling 75bps. The Fed has now reduced rates by 175bps since its started to ease policy in September 2024 with interest rates now at 3.50-3.75%. However, the voting breakdown showed sharply differing views within the FOMC. Three members dissented, the highest in six years. Governor Miran continued to vote for a 50bps reduction in rates, while regional Fed Presidents Goolsbee and Schmid voted to hold rates steady. Moreover, the economic projections showed that four other non-voting officials were also in favour of a hold.
- **Aside from the key policy announcements, the meeting statement for December contained a few other subtle yet important changes.** The committee continued to describe the economy as “expanding at a moderate pace”. However, it removed its comment that unemployment “remained low” from the October statement, suggesting a slight dovish tilt towards labour market concerns, further emphasised by Chair Powell’s remarks at the press conference. Its characterisation of the inflationary backdrop was that inflation remained “somewhat elevated”.
- **Despite the dispersion of views on the FOMC, the median view on rates remains unchanged since September.** That is for a further 25bps cut in 2026, less than the 50bps still priced in by markets. For 2027, rates are seen as declining to 3.00-3.25% by year end. Further out, the “longer run” view was unchanged at 3.0%. The uneasy consensus is not surprising given the Fed is inching towards its neutral rate. Indeed, its dual mandate (stable prices and maximum employment) is in some tension, given the recent deterioration in the labour market and continued sticky inflation. However, while President Trump might favour lower rates, it looks like the FOMC will continue to have a bulwark of hawks against unnecessary easing for the foreseeable future.
- **Although Powell may be replaced as Chair by a potentially dovish pick by President Trump, that Chair will be just one of 12 voters.** Indeed, Powell is entitled to remain on the Board of Governors until 2028. Of the four rotating voters among regional presidents, the class of 2026 might prove even more reliably hawkish than the outgoing 2025 contingent. A further institutional risk to the Fed’s independence has subsided also, with the approval of new five-year terms for the regional presidents by the Board of Governors. So, while erosion of the Fed’s independence remains a risk heading into 2026, the institution has significant inbuilt safeguards against any potential overreach by the US government.
- **This week, the monetary spotlight will turn to the ECB, the BoE and the BoJ.** The ECB is widely expected to leave rates on hold for a fourth consecutive meeting. Indeed, the main focus will likely be on the updated ECB staff macroeconomic projections. Aside from that, remarks from President Lagarde will warrant attention. **In contrast, futures contracts pricing indicates that the market is of the view that the BoE will cut rates by 25bps.** The BoE left rates on hold in November, by a narrow 5-4 vote. In remarks at the meeting though, BoE Governor Bailey stated that a rate cut this month was likely, if inflation moved in-line with the BoE’s expectations. Since then, inflation has moved off its peak. **In contrast, markets think there is a 75% chance that the BoJ will hike rates by 25bps, to 0.75%.**
- **On the data front, the macro calendar is jam-packed.** Most notably, the delayed US labour market report for November will be released. As mentioned above, US labour market conditions have softened this year. The consensus is for a meagre rise of 35k in non-farm payrolls in November, while the unemployment rate is set to remain at 4.4%. Elsewhere, CPI inflation is due. Both the headline and core rates were at 3.0% in September. The latter is expected to remain at 3.0% in November, while the former is expected to tick higher to 3.1%. Finally, retail sales data for November will be released. The headline and the control group measures are forecast to rise by 0.2% m/m and 0.3% m/m, respectively.
- **In the UK, updates on the labour market, inflation and retail sales are also due.** As in the US, UK labour market conditions have deteriorated. The unemployment rate has increased steadily to 5.0% in September, its highest level since February 2021. Against this backdrop, wage inflation has cooled but remains elevated, up by 4.6% y/y in Q3. It is anticipated that the jobless rate will rise to 5.1% and wage growth is expected to fall to 4.5% y/y in October. In terms of inflation, the headline rate is projected to slow to 3.5% in November. Meanwhile, a 0.5% rise is pencilled in for retail sales, following a 1.1% fall in October.
- **In terms of more up-to-date data, the flash PMIs for December in the main advanced economies will feature.** Across the board, the services sector is above the key 50 level, and outperforming manufacturing, albeit there are some differences. In the Eurozone, the manufacturing sector was in contraction mode in November, while in the UK it was consistent with broadly stable conditions, whereas in the US, it expanded at a solid pace. In any case, the PMIs are forecast to be little changed in December.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2025	2026	2026
Fed Funds	3.625	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.00	3.75	3.50	3.50
BoJ OCR	0.50	0.75	0.75	0.75
Current Rates Reuters, Forecasts AIB's ERU				

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2025	2026	2026
EUR/USD	1.1736	1.16	1.17	1.18
EUR/GBP	0.8780	0.88	0.88	0.88
EUR/JPY	183.00	178	179	179
GBP/USD	1.3363	1.32	1.33	1.34
USD/JPY	155.92	153	153	152
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Cipollone, Lane (Mon)		
	BoE Speakers:				
	Fed Speakers:		Williams, Miran (Mon); Waller, Williams, Bostic (Wed)		
Mon 15th	EU-20:	10:00	Industrial Production (October)	+0.2% (+1.2%)	+0.8% (+1.9%)
	US:	13:30	NY Fed / Empire State Index (December)	18.7	9.7
Tue 16th	JPN:	00:30	Flash S&P Composite PMI (December)	52.0	
	UK:	07:00	Unemployment Rate (October)	5.0%	5.1%
	UK:	07:00	Employment Change (October)	-22,000	
	UK:	07:00	Average Earnings (October)	(+4.8%)	
			- Ex-Bonus	(+4.6%)	(+4.5%)
	UK:	07:00	Claimant Count (November)	+29,000	
	UK:	07:00	HMRC Payrolls (November)	-32,000	
	FRA:	08:15	Flash HCOB Composite PMI (December)	50.4	
	GER:	08:30	Flash HCOB Composite PMI (December)	52.4	52.7
	EU-20:	09:00	Flash HCOB Composite PMI (December)	52.8	53.1
			- Manufacturing / Services	49.6 / 53.6	49.9 / 53.9
	UK:	09:30	Flash S&P Composite PMI (December)	51.2	51.4
			- Manufacturing / Services	50.2 / 51.3	50.4 / 51.4
	GER:	10:00	ZEW Economic Sentiment (December)	38.5	39.5
	US:	13:30	Non-Farm Payrolls (November)	+119,000	+35,000
			- Unemployment Rate	4.4%	4.4%
			- Average Earnings	+0.2% (+3.8%)	+0.3% (+3.6%)
	US:	13:30	Retail Sales (October)	+0.2%	+0.2%
			- Ex-Autos	+0.3%	+0.3%
			- Control Group	-0.1%	+0.3%
	US:	14:45	Flash S&P Composite PMI (December)	54.2	54.0
			- Manufacturing / Services	52.2 / 54.1	52.0 / 54.0
Wed 17th	UK:	07:00	CPI Inflation (November)	+0.4% (+3.6%)	+0.0% (+3.5%)
			- Core-CPI	+0.3% (+3.4%)	(+3.4%)
			- Services CPI	+0.2% (+4.5%)	(+4.6%)
	GER:	09:00	Ifo Business Climate (December)	88.1	88.3
	EU-20:	10:00	Final HICP Inflation (November)	+0.2% (+2.2%)	+0.2% (+2.2%)
			- Ex-Food & Energy	+0.2% (+2.4%)	+0.2% (+2.4%)
			- Ex-Food, Energy, Alcohol & Tobacco	-0.5% (+2.1%)	-0.5% (+2.1%)
	IRE:	11:00	Residential Property Price Index (October)	+0.9% (+7.6%)	+0.6% (+7.4%)
Thu 18th	UK:	12:00	BoE Monetary Policy Announcement		
			- Bank Rate	4.00%	3.75%
	EU-20:	13:15	ECB Monetary Policy Decision		
			- Deposit Rate	2.00%	2.00%
			- Re-fi Rate	2.15%	2.15%
	US:	13:30	CPI Inflation (November)	+0.3% (+3.0%)	+0.3% (+3.1%)
			- Core-CPI	+0.2% (+3.0%)	+0.2% (+3.0%)
	US:	13:30	Initial Jobless Claims (w/e 8th December)	+236,000	+225,000
	EU-20:	13:45	ECB Post-Meeting Press Conference		
Fri 19th	JPN:		Bank of Japan Monetary Policy Announcement	0.50%	0.75%
	UK:	00:01	Gfk Consumer Confidence (December)	-19.0	-23.0
	UK:	07:00	Retail Sales (November)	-1.1% (+0.2%)	+0.5%
			- Ex-Fuel	-1.0% (+1.2%)	
	US:	13:30	Personal Income / Consumption (October)	+0.4% / +0.3%	
	EU-20:	15:00	Flash Consumer Confidence (December)	-14.2	-14.0

♦ Month-on-month changes (year-on-year shown in brackets)

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