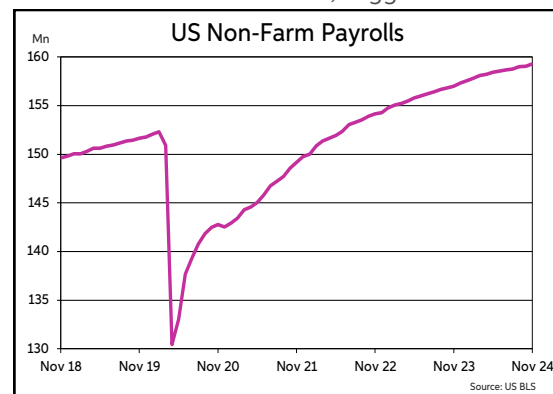


2025 the year geopolitics begins to bite?

- **As we discussed in our weekly publications throughout 2024, the year was marked by monetary policy uncertainty and heightened geopolitical tensions.** While major central banks delivered the expected reduction in rates, the 50-100bps of easing was significantly less than markets expected at the start of 2024 (c.150 bps). However, these cuts should begin to provide a tangible boost to economies throughout 2025. On the geopolitical front, a succession of major events such as numerous elections and rising tensions in the Middle East, failed to spill over to the global economy as the war in Ukraine did in 2022.
- **However, 2025 may be the year where the geopolitics begin to bite on the global economy.** While not on the scale of last year, elections are due in Germany, Canada, Australia, and potentially France. January will see the inauguration of President Trump, with a flurry of executive orders expected to reflect his recent protectionist rhetoric. In focus are likely to be the regions with the largest trade surpluses with the US, beginning with China, North American partners and the EU. Incidentally, latest goods trade data show Ireland now has the fifth largest, and growing, trade surplus with the US, placing it firmly in the firing line of potential tariff measures against the EU. Ireland's trade surplus is only surpassed by Germany, Vietnam, Mexico and China. Trump's foreign policy could also impact ongoing conflicts in Europe and the Middle East, which may reverberate back to the global economy.
- **Elsewhere, China's response to potential US tariffs and its fiscal policy to combat a weak domestic economy will impact the global economy.** The fiscal stimulus initiated in late 2024 is likely to be expanded as authorities battle a damaging deflationary cycle which has hit highly-leveraged sectors of the Chinese economy. As China leaves behind the Year of the Dragon for the Snake in 2025, the sting of a further bout of inflation remains a risk to the outlook in Europe and the US. While central banks are expected to cut rates further in 2025, these plans may be clipped by still-high core inflation in many countries. On the energy side, though contained for now, an enduring cold snap in Europe this winter would deplete gas reserves and could precipitate fresh inflationary pressures. In the US, a full-throated Trump 2.0 agenda might also ignite inflationary embers, a risk acknowledged by Fed Chair Powell at the December FOMC meeting.
- **Finally, the unexpected events which have been so prevalent in the past few years, from the pandemic to conflicts, have the potential to roil markets and economies once again in 2025,** which alongside the above 'known unknowns', suggest 2025 could be another bumpy year for the global economy.

■ **Turning to the week ahead, the main highlight will be the US labour market for December.** Labour market conditions have softened somewhat, albeit the data have been volatile recently. The unemployment rate was at 4.2% in November, having oscillated between 4.1-4.3% since June. This compares to a range of 3.7-3.9% in Q1. Meanwhile, the pace of payroll expansion has slowed, averaging 148k and 159k per month, in Q2 and Q3, compared to 267k per month in Q1. Furthermore, payrolls have risen by just 132k per month so far in Q4, amid disruptions from storms and industrial action. At the same time, there are signs that labour demand is waning. The number of job openings stood at 7.74m in October, down from 8.75m at the start of the year. Amid the softening in labour demand, average earnings growth has slowed but remains elevated. It printed at +4.0% y/y in October and November, up from +3.9% in September, but below the +4.4% rate registered in January. **The consensus is for payrolls to rise by 150k in December, while the unemployment rate and average earnings are forecast to remain at 4.2% and +4.0% y/y.** Meanwhile, job openings are projected to fall to 7.67m in November.



- **Elsewhere in the US, a busy calendar also includes the Fed meeting minutes from the final FOMC meeting of 2024.** The Fed delivered a second consecutive 25bps rate cut at the meeting but the overarching tone was somewhat hawkish. A very gradual pace of rate cuts is expected this year and market participants will pay close attention to the minutes for any hints on the future path of policy. The non-manufacturing ISM for December is also due. In terms of some timelier updates, the preliminary reading of the Michigan consumer sentiment measure is expected to be little changed in January.
- **In the Eurozone, flash HICP inflation data for December will be released.** Little progress has been made on the inflation front in recent months. The headline rate fell to 1.7% in September, its lowest level since April 2021, but the decline was widely expected, and it was largely driven by a sharp fall in energy prices. Furthermore, since then it has re-accelerated to 2.2% in November. Meantime, core inflation is proving to be quite sticky. The ex-food and energy rate has been stuck between 2.6-2.8% since April, and it printed at 2.7% in October and November. A further increase in the headline rate to 2.4% is pencilled in for December. The core rate is forecast to stay at 2.7%. Elsewhere, the unemployment rate is projected to remain at 6.3% in November.

	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	3.00	2.50	2.25	2.00
BoE Repo	4.75	4.50	4.25	4.00
BoJ OCR	0.25	0.50	0.50	0.50

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
EUR/USD	1.0283	1.07	1.08	1.08
EUR/GBP	0.8291	0.83	0.84	0.84
EUR/JPY	161.90	161	161	160
GBP/USD	1.2398	1.28	1.28	1.28
USD/JPY	157.42	150	150	149

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:	Cook (Mon); Barkin (Tue); Waller (Wed); Harker, Barkin, Schmid, Bowman (Thu)		
Mon 6th	JPN: 00:30	Final Jibun Composite PMI (December)	50.8	50.8
	IRE: 01:01	AIB Irish Services PMI (December)	58.3	
	ITA: 08:45	HCOB Composite PMI (December)	47.7	
	FRA: 08:50	Final HCOB Composite PMI (December)	46.7	46.7
	GER: 08:55	Final HCOB Composite PMI (December)	47.8	47.8
	EU-20: 09:00	Final HCOB Composite PMI (December)	49.5	49.5
		- Final HCOB Services PMI (December)	51.4	51.4
	EU-20: 09:30	Sentix Index (January)	-17.5	-18.2
	UK: 09:30	Final S&P Composite PMI (December)	50.5	50.5
		- Final S&P Services PMI (December)	51.4	51.4
	GER: 13:00	Flash HICP Inflation (December)	-0.7% (+2.4%)	+0.3% (+2.5%)
	US: 14:45	Final S&P Composite PMI (December)	56.6	56.6
		- Final S&P Services PMI (December)	58.5	58.5
	IRE: 16:30	Exchequer Returns (December)	Dec'23: +€1.2bn	
		-Excluding Transfer to the NRF	Dec'23: +€5.2bn	
Tue 7th	FRA: 07:45	Flash HICP Inflation (December)	-0.1% (+1.7%)	(+1.8%)
	ITA: 09:00	Unemployment Rate (November)	5.8%	6.0%
	EU-20: 10:00	Flash HICP Inflation (December)	-0.3% (+2.2%)	(+2.4%)
		- Ex-Food & Energy	-0.4% (+2.7%)	(+2.7%)
		- Ex-Food, Energy, Alcohol & Tobacco	-0.6% (+2.7%)	(+2.7%)
	EU-20: 10:00	Unemployment Rate (November)	6.3%	6.3%
	ITA: 10:00	Flash HICP Inflation (December)	-0.1% (+1.5%)	(+1.6%)
	US: 13:30	International Trade (November)	-\$73.8bn	-\$78.0bn
	US: 15:00	Non-Manufacturing ISM (December)	52.1	53.1
	US: 15:00	JOLTS Job Openings (November)	+7.74m	+7.67m
Wed 8th	GER: 07:00	Industrial Orders (November)	-1.5%	+0.0%
	GER: 07:00	Retail Sales (November)	-1.5% (+1.0%)	
	EU-20: 10:00	Producer Price Inflation (November)	+0.4% (-3.2%)	+1.6% (-1.2%)
	EU-20: 10:00	EC Economic Sentiment (December)	95.8	95.8
		- Consumer / Industrial / Services	-14.5 / -11.1 / 5.3	-14.5 / -11.7 / 6.0
	IRE: 11:00	Unemployment Rate (December)	4.1%	4.1%
	US: 13:15	ADP Employment (December)	+146,000	+140,000
	US: 19:30	Fed FOMC Meeting Minutes (Dec 17-18th)		
Thu 9th	GER: 07:00	Industrial Output (November)	-1.0% (-4.8%)	+0.5% (-4.5%)
	GER: 07:00	Trade Balance (November)	+€13.4bn	+€15.1bn
		- Exports	-2.8%	+2.0%
	EU-20: 10:00	Retail Sales (November)	-0.5% (+1.9%)	+0.5%
	US: 13:30	Initial Jobless Claims (w/e 30th December)	+211,000	
Fri 10th	FRA: 07:45	Industrial Output (November)	-0.1%	+0.0%
	US: 13:30	Non-Farm Payrolls (December)	+227,000	+150,000
		- Unemployment Rate	4.2%	4.2%
		- Average Earnings	+0.4% (+4.0%)	+0.3% (+4.0%)
	US: 15:00	Preli. Uni. Michigan Consumer Sentiment (Jan)	74.0	74.0

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