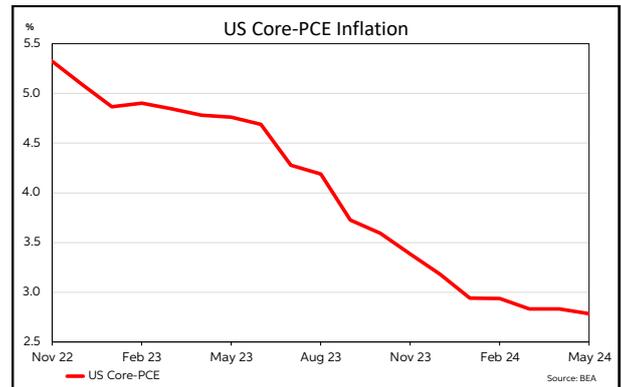


ECB keeping its options open

- In the past week we have seen the July/August round of the key central bank meetings get underway, with the ECB first up.** As expected, the Governing Council kept interest rates unchanged. This means that the Deposit rate remains at 3.75% while the Re-fi rate stays at 4.25%. The ‘hold’ on rates in July follows the 25bps cut implemented in June to the ECB’s main interest rates. The rate cut in June represented its first change in six meetings, and followed on from the rate hiking cycle in 2022-23. The decision by the ECB to keep its policy rates unaltered this month was unanimous.
- Given the lack of any rate policy changes from the ECB was very much in line with expectations, the focus on this month’s meeting was on what guidance, if any, the central bank would give regarding the potential for further rate cuts over the coming months.** The meeting statement provided no new insight in relation to this. It continued to note that the Governing Council will follow a “data-dependent and meeting-by-meeting approach” to determine the appropriate interest rate setting. It also re-emphasised that it is not “pre-committing to a particular rate path”. Meanwhile, during the press conference, President Lagarde reiterated this approach.
- However, in response to a number of questions on the possibility of a rate cut at its next meeting on September 12th, President Lagarde did state that September “is wide open”** and any decision will be determined by incoming data over the coming weeks. She also commented that “it is clear between now and September, we will be receiving a lot of information”. In other words, the ECB is not ruling out a rate cut in September, while at the same time maintaining flexibility on the timing of any decision on rates.
- Market rate expectations for the ECB have remained relatively stable over the last number of months.** Broadly speaking, since the last ECB meeting in June, the market has been pricing in around 50bps of rate cuts between now and year end. In the aftermath of the July Governing Council meeting, the market is attaching a lower probability to the chance of a rate cut in September compared to before the meeting (i.e. 65% vs 90%), with the next 25bps rate cut not now fully priced in until its October meeting. Our view remains unchanged, and we continue to believe that a further 50bps of rate cuts from the ECB over the remainder of 2024 is a plausible scenario if underlying inflation, including wage growth, shows further signs of moderating. This would see the Deposit rate end the year at 3.25%.
- Turning to the week ahead, there is a busy release schedule in the US.** The main focus will be on the June reading of core-PCE, the Fed’s preferred measure of inflation. This metric has been slowing gradually, falling to 2.8% in February, its lowest level since March 2021. It remained at that level in March and April. However, in May, further progress towards the 2% target was made, with the rate easing back to 2.6%. The consensus is for core-PCE to remain unchanged in June. Meanwhile, we get a number of other updates on the consumer side of the economy. Personal income is forecast to move 0.4% higher in June, having risen by 0.4% in real terms in May, the fastest rate of increase since January. Amid the recent accelerated rise in income and the fall in inflation, real consumption is anticipated to increase by 0.3% in June. Elsewhere, the first reading of GDP is set to show the economy expanded by 1.8% annualised in Q2, up from 1.4% in Q1.
- In terms of some timelier data on the US economy, the flash PMIs for July are due.** The manufacturing and services PMIs were firmly in expansion mode in June, at 51.6 and the services at 55.3, respectively, consistent with a solid pace of rising activity levels in each sector. The consensus is for both readings to be little changed in July. Likewise, in the UK, the services and manufacturing PMIs have been in expansion mode for a number of months. This trend is expected to continue in July, with the two sectors remaining above the key 50 mark. In-line with the US and the UK, the Eurozone services sector has been outperforming manufacturing also. The former has been in expansion mode for the last number of months while the latter has printed in contraction territory for the past two years. A modest improvement is pencilled in for both sectors in July, albeit manufacturing is set to stay well below the 50 threshold.
- Elsewhere in the Eurozone, a raft of other survey data will feature.** Having edged higher throughout Q2, consumer confidence is projected to rise to –13.2 in July, up from –14.0 in June. A number of other consumer and business sentiment indicators from the large Euro-area economies for July will also be released, including the bellwether German Ifo. Overall, very slight improvements are anticipated across the board.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	5.375	5.125	4.875	4.625
ECB Deposit	3.75	3.50	3.25	3.00
BoE Repo	5.25	5.00	4.75	4.50
BoJ OCR	0.10	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.0885	1.10	1.11	1.12
EUR/GBP	0.8424	0.87	0.87	0.88
EUR/JPY	171.29	171	170	168
GBP/USD	1.2917	1.26	1.28	1.28
USD/JPY	157.34	155	153	151

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
This Week:	ECB Speakers:	Lane (Tue); Lane, de Guindos (Wed); Lagarde (Thu)			
	BoE Speakers:				
	Fed Speakers:				
Mon 22nd					
Tue 23rd	EU-20:	15:00	EC Consumer Confidence (July)	-14.0	-13.2
	US:	15:00	Existing Home Sales (June)	4.11m / -0.7%	4.00m / -2.7%
Wed 24th	JPN:	01:30	Flash Jibun Composite PMI (July)	49.7	
	GER:	07:00	Gfk Consumer Sentiment (August)	-21.8	-21.0
	FRA:	08:15	Flash HCOB Composite PMI (July)	48.8	49.1
	GER:	08:30	Flash HCOB Composite PMI (July)	50.4	
	EU-20:	09:00	Flash HCOB Composite PMI (July)	50.9	51.1
			- Manufacturing PMI / Services PMI	45.8 / 52.8	46.0 / 53.50
	UK:	09:30	Flash S&P Composite PMI (July)	52.3	52.6
			- Manufacturing / Services	50.9 / 52.1	51.2 / 52.5
	US:	14:45	Flash S&P Composite PMI (July)	54.8	54.8
			- Manufacturing / Services	51.6 / 55.3	51.9 / 55.2
	US:	15:00	New Home Sales (June)	+0.619m / -11.3%	+0.64m / +3.4%
Thu 25th	FRA:	07:45	INSEE Business Climate (July)	99.0	99.0
	EU-20:	09:00	M3 Annual Money Growth (June)	+1.6%	+1.8%
	GER:	09:00	Ifo Business Climate (July)	88.6	89.0
	US:	13:30	Durable Goods (June)	+0.1%	+0.3%
			- Ex-Transport	-0.1%	
			- Ex-Defence	-0.2%	
	US:	13:30	GDP (Q2: Advanced Reading)	+1.4% s.a.a.r.	+1.8% s.a.a.r.
	US:	13:30	PCE Prices (Advanced Reading)	+3.4% s.a.a.r.	
			- Core-PCE Prices	+3.7% s.a.a.r.	
	US:	13:30	Initial Jobless Claims (w/e 15th July)	+243,000	
Fri 26th	JPN:	00:30	CPI Tokyo (July)	+2.3%	
			- Ex-Fresh Food	+2.1%	+2.2%
	FRA:	07:45	INSEE Consumer Confidence (July)	89.0	
	ITA:	09:00	ISTAT Business Confidence (July)	86.8	87.0
	ITA:	09:00	ISTAT Consumer Confidence (July)	98.3	99.0
	US:	13:30	Personal Income / Consumption	+0.5% / +0.3%	+0.4% / +0.3%
	US:	13:30	PCE-Prices (June)	+0.0% (+2.6%)	+0.1% (+2.5%)
			- Core-PCE Prices	+0.1% (+2.6%)	+0.1% (+2.6%)
	US:	15:00	Final Uni. Michigan Consumer Sentiment (July)	66.0	66.0

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