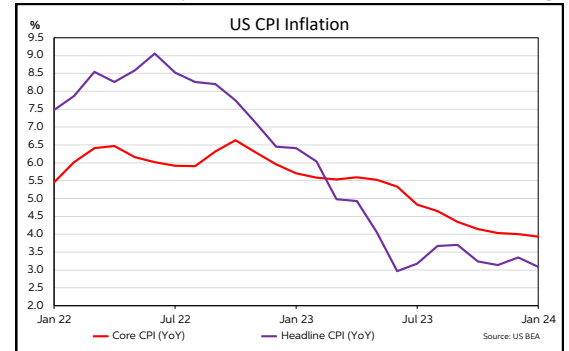


## Cautious Approach by Central Banks

- After around two years of aggressive interest rate hikes from the main central banks, monetary policy makers are currently on hold.** They have indicated that policy will need to be kept restrictive for a considerable period to ensure a return to price stability over the medium term. The most recent communications from the Fed suggest it is in no hurry to cut rates, and is currently deploying a “data-dependent” approach in setting monetary policy. Overall, central banks are waiting for further signs that underlying inflation is on a sustained downward trajectory to give them confidence that it will fall back towards 2% before they will contemplate cutting rates. Amid some upside surprises on the data front, and on-going hawkish central bank rhetoric, market rate expectations have hardened since late January. There is around 50bps less of rate cuts now being anticipated for this year, compared to futures contracts pricing at the end of January.
- In the past week, we have seen further evidence of the cautious approach that central banks are taking in determining when is the right time to start to ease interest rates.** In the US, Fed Chair Powell gave his semi-annual testimony to Congress. He emphasised that while the Fed believes it will be appropriate to “begin dialling back policy restraint at some point this year” he stated that they are “waiting to become more confident that inflation is moving sustainably at 2%”. In a separate speaking engagement, Fed official Kashkari, commented that the Fed has “time to get more data before we start dialling back policy”.
- There was a similar message coming last Thursday’s ECB Governing Council meeting for March.** For a fourth consecutive meeting, the central bank maintained its key deposit rate at 4%. Furthermore, the central bank continued to emphasise that it will ensure that rates are sufficiently restrictive for as long as required to reach its 2% inflation target on a sustained basis. However, the ECB did indicate that a rate cut in June was a possibility. President Lagarde commented that the ECB will have a “little” data in April, but will have “a lot more” for the June meeting and “it matters because we are data dependent”. The ECB will be looking for more progress on reaching their inflation target.
- Meanwhile, during the post meeting press conference, President Lagarde was asked about the re-pricing of market expectations since January, and how it aligned with her own view.** She responded by saying that they “seem to be converging better”. This suggests that current market expectations for around 100bps of rate cuts this year are broadly aligned with the ECB’s rate outlook. However, with central banks no longer providing specific forward guidance on the rate outlook, whilst at the same time being in data dependent mode, market rate expectations will remain very reactive to key data releases and remarks from central bank officials.
- In this context, the main data highlight this week will be US CPI inflation for February.** Having fallen sharply in the first half of last year, headline CPI inflation has been range bound since mid-2023, printing in a 3.1-3.7% corridor. Headline CPI stood at the bottom of this range, at 3.1%, in January. Meantime, the downward trend in core-CPI inflation has stalled in recent months. Core-CPI declined from 5.6% at the start of 2023 to 4% in October, before edging lower to 3.9% in December, and remaining at that level in January. Furthermore, on a month-on-month basis, medical care expenses, insurance premiums and the cost of shelter have all increased sharply. Overall, the recent CPI data suggest price pressures are elevated, with inflation proving to be somewhat sticky as a result. The consensus is for headline CPI to be unchanged at 3.1% in February, while the core rate is forecast to edge lower to 3.7%.
- Elsewhere in the US, after declining sharply by 0.8% in January, retail sales are projected to rebound by 0.5% in February.** Meantime, the Michigan reading of consumer sentiment for March is set to be similar to its February reading. In terms of industrial production though, output is anticipated to have stagnated in February, following a slight contraction in January. **Industrial production data are due in the Eurozone as well.** Eurozone industrial output was rather weak in 2023, contracting by 2.4% overall. In December though, production rose sharply by 2.6%, albeit this was largely due to a very large 23.5% increase in Irish industrial output, which is highly volatile. A contraction of 1.0% is pencilled in for January.
- A busy UK data schedule includes updates on the labour market and GDP.** Conditions in the labour market have softened recently, but they remain tight overall. The unemployment rate stood at 3.8% in the three months to December, which is low by historical standards. Meanwhile, average earnings growth rose by a substantial 5.8% y/y in Q4 2023, albeit this is the lowest pace of expansion since Q1 2023. The unemployment rate is forecast to remain at 3.8% in January, while average earnings growth is projected to slow slightly to 5.7% y/y. In terms of GDP, although the UK economy avoided the deep recession that had been widely predicted, the economy entered a shallow recession in the second half of 2023. GDP contracted by 0.1% in Q3, and by 0.3% in Q4, partly due to a 0.1% m/m fall in output in December. The monthly reading of GDP for January is expected to show an 0.2% m/m rise in output at the start of 2024.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2024	2024	2024
Fed Funds	5.375	5.375	5.125	4.875
ECB Deposit	4.00	4.00	3.75	3.25
BoE Repo	5.25	5.25	5.25	5.00
BoJ OCR	-0.10	-0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
		2024	2024	2024
EUR/USD	1.0942	1.10	1.10	1.11
EUR/GBP	0.8510	0.86	0.87	0.87
EUR/JPY	161.12	164	159	158
GBP/USD	1.2854	1.28	1.26	1.28
USD/JPY	147.23	149	145	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
<b>This Week:</b>	<b>ECB Speakers:</b>	Cipollone (Mon); DeGuindos (Tue); Cipollone (Wed); Elderson, Schnabel (Thur); Lane (Fri)			
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>				
<b>Mon 11th</b>					
<b>Tue 12th</b>	<b>GER:</b>	07:00	Final HICP Inflation (February)	+0.6% (+2.7%)	+0.6% (+2.7%)
	<b>UK:</b>	07:00	ILO Unemployment Rate (January)	3.8%	3.8%
	<b>UK:</b>	07:00	Employment Change (January)	+72,000	
	<b>UK:</b>	07:00	Claimant Count (January)	+14,100	
	<b>UK:</b>	07:00	Average Earnings (January)	(+5.8%)	(+5.7%)
			- Ex-Bonus	(+6.2%)	(+6.2%)
	<b>US:</b>	10:00	NFIB Small Business Optimism (February)	89.9	
	<b>US:</b>	12:30	CPI Inflation (February)	+0.3% (+3.1%)	+0.4% (+3.1%)
			- Core-CPI	+0.4% (+3.9%)	+0.3% (+3.7%)
<b>Wed 13th</b>	<b>UK:</b>	07:00	GDP (January)	-0.1% (0.0%)	+0.2%
			- 3m/3m	-0.3%	-0.1%
	<b>UK:</b>	07:00	Industrial Output (January)	+0.6% (+0.6%)	0.0% (+0.7%)
			- Manufacturing Output	+0.8% (+2.3%)	0.0% (+2.0%)
	<b>EU-20:</b>	10:00	Industrial Production (January)	+2.6% (+1.2%)	-1.0% (-2.8%)
	<b>IRL:</b>	<b>11:00</b>	<b>Residential Property Price (January)</b>	<b>+1.5% (+4.4%)</b>	<b>+0.5% (+5.5%)</b>
<b>Thu 14th</b>	<b>SPA:</b>	08:00	Final HICP Inflation (February)	+0.4% (+2.9%)	+0.4% (+2.9%)
	<b>IRL:</b>	<b>11:00</b>	<b>CPI Inflation (February)</b>	<b>-1.3% (+4.1%)</b>	
			<b>- HICP Inflation Flash:</b>	<b>(+2.2%)</b>	<b>(+2.2%)</b>
	<b>US:</b>	12:30	Initial Jobless Claims (w/e 4th March)	+217,000	+213,000
	<b>US:</b>	12:30	PPI Final Demand (February)	+0.3% (+0.9%)	+0.3% (+1.1%)
			- Ex-Food & Energy	+0.5% (+2.0%)	+0.2%
	<b>US:</b>	12:30	Retail Sales (February)	-0.8% (+0.7%)	+0.5%
			- Ex-Autos	-0.6%	+0.4%
			- Control Group	-0.4%	
<b>Fri 15th</b>	<b>FRA:</b>	07:45	Final HICP Inflation (February)	+0.9% (+3.1%)	+0.9% (+3.1%)
	<b>ITA:</b>	09:00	Final HICP Inflation (February)	+0.1% (+0.9%)	+0.1% (+0.9%)
	<b>US:</b>	12:30	NY Fed / Empire State Index (March)	-2.40	-6.50
	<b>US:</b>	13:15	Industrial Production (February)	-0.1% (+0.0%)	+0.0%
			- Manufacturing Output	-0.5%	
			- Capacity Utilisation	78.5%	78.4%
	<b>US:</b>	14:00	Prelim. Uni. Michigan Consumer Sentiment (March)	76.9	76.9

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

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