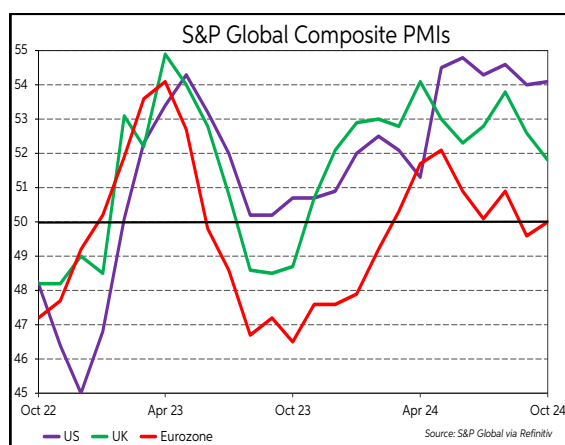


European political risk back in focus

- **While much attention has focused on the potential impact of President-elect Trump on the Eurozone economy**, the continuing uncertainty around European politics and fiscal policies has also weighed on the euro and local equity markets recently, alongside the continuing “Trump trade”. In particular, the expected dissolution of the German Government brings yet further political uncertainty, following the summer elections in France and the European parliament.
- **With a long lead-in time to an expected German election in February, this uncertainty may hit consumer and business confidence further in Europe’s largest economy, which will see another year of weak GDP growth in 2024**, following a shallow recession last year. Moreover, the prospect of fresh US tariffs in the new year could disproportionately hit the German industrial sector, which has significant trade linkages with the US economy. Against this backdrop, the European Commission downgraded its growth projections for the Eurozone in 2025 to 1.3% from its previous 1.4% forecast, largely driven by expected weak growth out-turns in Germany and France next year.
- **Polls suggest the election is likely to yield a change of Government, with the centre-right CDU/CSU returning to power.** However, the rise of political extremes in Germany adds a further layer of uncertainty to the outcome. Longer term, a future Government will continue to be constrained by the restrictive “debt brake”, which has limited the current Government’s room to manoeuvre in supporting economic growth, by mandating a structural budget deficit close to zero.
- **Certainly, the German Government could have run larger deficits in recent years to underpin growth, particularly as the reliance on imported energy drove inflation higher and the downturn in export markets in Asia buffeted the German manufacturing sector.** Indeed, the budget deficit is expected at just 2% of GDP in 2025, falling to 1.8% in 2026, according to the EU Commission’s forecasts – well below the 3% limit mandated by EU fiscal rules, and the 5-6% deficit forecast in France over the same period. With the debt brake a vaunted creation of the previous CDU Chancellor Merkel in 2009, a future centre-right Chancellor is unlikely to meddle substantially with the fiscal rule; albeit CDU leader, Friedrich Merz, has expressed a willingness to examine tweaks to the rule to potentially support capital investment.

■ **Turning to the week ahead, the main highlight will be the flash PMIs for November in the Eurozone, US and the UK.**

Across all three regions, the services sector has outperformed manufacturing recently. In the Eurozone, the divergence in performance between the sectors has been the clearest and most long-lasting. The manufacturing PMI has been in contraction territory for over two years, and printed at just 46.0 in October. Meanwhile, the services PMI has been in expansion mode since February, albeit it eased to 51.4 and 51.6 in the last two months, consistent with a slower pace of growth in the sector. The consensus is for a similar divergence between the PMIs to continue in November. In the US, although the manufacturing PMI improved in October, it remained below the key 50 mark. In contrast, the services index declined slightly to 55.0. Looking ahead, the US PMIs are forecast to improve marginally in November. Meantime, both UK PMIs deteriorated in October, with the manufacturing index slipping back to 49.9. The services PMI came in at 52.0 in the month. Both PMIs are projected to be unchanged in November.



- **Elsewhere in the UK, CPI inflation data for October will feature.** In September, the headline rate fell to 1.7% from 2.2% in the two months prior, while core-CPI declined to 3.2% from 3.6% in August. Furthermore, services inflation, a key area of concern for the BoE recently, moved back to 4.9% in September, its lowest level since May 2022. However, despite the recent progress on the inflation front, the BoE guided in its November Monetary Policy Report that it expects inflation to move higher between now and year end. Indeed, the consensus is for the headline rate to jump to 2.2% in October. At the same time, core-CPI is forecast to be unchanged in the month. A busy UK data calendar also includes updates on retail sales and consumer confidence. Having risen throughout Q3, retail sales are expected to contract by 0.3% in October. Meanwhile, consumer confidence is projected to deteriorate for a third successive month to –23.0 in November.

- **In the Eurozone, the flash reading of consumer confidence for November is also due.** A very meagre improvement to –12.4 from –12.5 is pencilled in for the month. Meantime, the final reading of HICP inflation for October is set to confirm the headline rate was at 2.0% in September. Elsewhere in the US, there will be a number of updates on the residential market, including housing starts and existing home sales (both October), as well as homebuilder sentiment (for November).

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2024	2025	2025
Fed Funds	4.625	4.375	3.875	3.375
ECB Deposit	3.25	3.00	2.50	2.25
BoE Repo	4.75	4.75	4.50	4.25
BoJ OCR	0.25	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2024	2025	2025
EUR/USD	1.0530	1.05	1.06	1.06
EUR/GBP	0.8343	0.84	0.84	0.85
EUR/JPY	163.56	160	160	162
GBP/USD	1.2621	1.25	1.26	1.25
USD/JPY	155.31	152	151	153

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lane (Mon); Lagarde , de Guindos (Wed); Lagarde , Schnabel (Fri)		
	BoE Speakers:	Greene (Mon); Ramsden (Tue); Mann (Thu)		
	Fed Speakers:	Goolsbee (Mon); Hammack, Goolsbee (Thu)		
Mon 18th	EU-20: 10:00	Total Trade Balance (September)	+€11.0bn	
	US: 15:00	NAHB Homebuilder Sentiment (November)	43.0	44.0
Tue 19th	EU-20: 10:00	Final HICP Inflation (October)	-0.1% (+2.0%)	-0.1% (+2.0%)
		- Ex-Food & Energy	+0.0% (+2.7%)	+0.0% (+2.7%)
		- Ex-Food, Energy, Alcohol & Tobacco	+0.2% (+2.7%)	+0.2% (+2.7%)
	US: 13:30	Housing Starts (October)	+1.354m / -0.5%	+1.340m / -1.0%
		- Building Starts	+1.425m / -3.1%	+1.430m / +0.4%
	JPN: 23:50	Trade Balance (October)	-¥294.3bn	-¥360.4bn
		- Exports	(-1.7%)	(+2.2%)
Wed 20th	GER: 07:00	Producer Prices (October)	-0.5% (-1.4%)	-0.5% (-1.4%)
	UK: 07:00	CPI Inflation (October)	+0.0% (+1.7%)	+0.5% (+2.2%)
		- Core-CPI	+0.1% (+3.2%)	(+3.2%)
		- Services CPI	-0.3% (+4.9%)	(+5.0%)
	UK: 07:00	PPI Output Price Inflation (October)	-0.5% (-0.7%)	
		- PPI Input Price Inflation	-1.0% (-2.3%)	
	IRE: 11:00	Residential Property Price Index (September)	+0.9% (+10.1%)	+0.8% (+9.9%)
	IRE: 11:00	Labour Force Survey (Q3 2024)		
Thu 21st	FRA: 07:45	INSEE Business Climate (November)	97.0	
	US: 13:30	Initial Jobless Claims (w/e 11th November)	+217,000	+225,000
	US: 13:30	Philly Fed Index (November)	10.3	6.5
	EU-20: 15:00	Flash Consumer Confidence (November)	-12.5	-12.4
	US: 15:00	Existing Home Sales (October)	+3.84m / -1.0%	+3.88m / +1.0
	JPN: 23:30	CPI Inflation (October)	-0.3% (+2.5%)	
		- Core-PI	(+2.4%)	
Fri 22nd	UK: 00:01	Gfk Consumer Confidence (November)	-21.0	-23.0
	JPN: 00:30	Flash Jibun Composite PMI (November)	49.6	
	GER: 07:00	GDP (Q3: Detailed Reading)	+0.2% (-0.2%)	-0.2% (-0.2%)
	UK: 07:00	Retail Sales (October)	+0.3% (+3.9%)	-0.3% (+3.4%)
		- Ex-Fuel	+0.3% (+4.0%)	-0.4% (+3.3%)
	SPA: 08:00	Overnight Stays (October)	Oct'23: 32.4m	
	FRA: 08:15	Flash HCOB Composite PMI (November)	48.1	
	GER: 08:30	Flash HCOB Composite PMI (November)	48.6	
	EU-20: 09:00	Flash HCOB Composite PMI (November)	50.0	50.0
		- Manufacturing / Services	45.0 / 51.6	46.0 / 51.5
	UK: 09:30	Flash Composite PMI (November)	51.8	51.8
		- Manufacturing / Services	49.9 / 52.0	49.9 / 52.0
	US: 14:45	Flash S&P Composite PMI (November)	54.1	54.3
		- Manufacturing / Services	48.5 / 55.0	48.8 / 55.2
	US: 15:00	Final Uni. Michigan Consumer Sentiment (Nov)	73.0	73.0

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