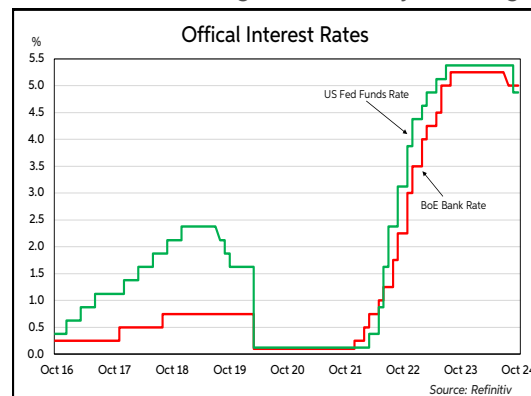


UK Chancellor avoids a “Truss moment”

- **The market reaction to this week’s UK Autumn Budget, suggests investor appetite has been tested by the scale of spending planned by the Chancellor in the next few years.** However, this was far from a “Truss moment” which led to a plunge in gilts and sterling in Autumn 2022. The headline Budget measures were a major £40bn tax-raising package and a sharp increase in infrastructure spending, underpinned by a change in the fiscal rules which provide significantly more borrowing headroom for the Chancellor to invest. In particular, the borrowing requirement expanded substantially, with an additional c.£140bn in debt issuance planned over and above the Spring Budget in March during the lifetime of this parliament.
- **On the week, UK gilt yields are c.20-30bps higher across the curve, well in excess of moves in other G7 countries.** Sterling has also weakened somewhat since the Budget statement, but the overall moves are modest in comparison to the “mini budget” debacle in 2022. Thus, the Chancellor appears to have just about assuaged markets and pulled off a substantial up front fiscal expansion, by tying herself to more binding timelines on her fiscal rules in the medium term. However, as with recent budgets, the plans for later years have come under scrutiny, with the fiscal watchdog, the OBR, and the Institute for Fiscal Studies calling into question both the Government’s forecasted yield from the tax hikes and the credibility of tighter spending ceilings from 2027 onwards.
- **Overall, higher capital spending in this Budget raises real government investment by 15% from 2025 to 2029, and this, in particular, has boosted the near term GDP forecasts from the OBR.** However, boosting capital investment to this extent in an economy operating close to full capacity will be challenging, and this profile is likely to drift into later years, so the main upfront positive impact of the Budget will be the rise in current spending – largely from higher public sector wages and a boost to health and education funding, alongside the dampening effects of higher taxes falling on employers and asset-based transactions. With these offsetting impacts from the Budget well understood in advance, the outlook for the Bank of England is unlikely to change too considerably when it meets for its key MPC meeting this coming Thursday.
- **However, it should be noted that UK futures contracts have hardened recently, with fewer rate cuts now priced-in by the end of next year.** Current pricing indicates that markets see about an 80% chance that the MPC will vote to cut rates by 25bps on Thursday. The move would be the second rate cut this cycle, following a first cut in August and a pause in September, and it would bring Bank rate down to 4.75%. Meanwhile, markets see only a 20% chance that the BoE will lower rates by a further 25bps at its December meeting. Further out, a total of 100bps worth of policy easing is expected between now and end-2025 (including the 25bps cut on Thursday). Thus, a key focus for investors this week will be the BoE’s updated assessment of the outlook in its latest Monetary Policy Report, and the associated press conference with Governor Bailey, for any hints on the future path of policy. The BoE reiterated its “meeting-by-meeting” approach to setting rates last time around in September, but in somewhat more dovish remarks since then Governor Bailey has stated that the BoE may become “a bit more aggressive” in cutting rates.
- **The same day as the BoE MPC meeting conclusion (and a day later than usual), the Fed FOMC will also announce its latest policy decision.** The Fed started its easing cycle with a bumper 50bps rate cut in September, meaning the Fed funds target range is currently between 4.75-5.00%. However, since then a number of strong data releases, and statements from a plethora of FOMC members suggesting that the Fed will follow a gradual approach to future rate cuts, has led to a firming in US futures contracts. Against this backdrop, markets are fully pricing in a 25bps rate cut this week, and are leaning heavily towards another 25bps cut in December. Overall, there are 125bps worth of easing priced-in between now and the end of 2025. Aside from the policy announcement from the Fed, the post-meeting press conference with Chair Powell will also be in focus.
- **Ahead of this week’s key monetary policy decisions though, the focus for markets will very much be on the outcome of the US Presidential Election.** Polls suggests both candidates are neck-and-neck in the seven key swing states. Given the election is likely to be so close, the result may not be known for some time after the polls have closed, which may induce further uncertainty for markets. Although both candidates are likely to pursue protectionist trade policies, activist industrial policies and increase the US national deficit substantially, there are key differences in the scale and scope of their proposals. The result could also have significant ramifications geopolitically amid the ongoing conflicts in Ukraine and the Middle East. However, it should be noted that what either Presidential candidate can actually do while in office may be curtailed by a split Congress. Polling suggests that Democrats may be able to flip the House, but they are likely to lose control of the Senate. **Meanwhile on the data front, the calendar is quite sparse.** The preliminary reading of US consumer sentiment for October is the highlight.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2024	2025	2025
Fed Funds	4.875	4.375	3.875	3.375
ECB Deposit	3.25	3.00	2.50	2.25
BoE Repo	5.00	4.50	4.00	3.50
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	1.0857	1.09	1.10	1.11
EUR/GBP	0.8371	0.84	0.84	0.85
EUR/JPY	165.79	160	160	162
GBP/USD	1.2968	1.30	1.31	1.31
USD/JPY	152.69	147	145	146

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast		
This Week:	ECB Speakers:	Lagarde , Schnabel (Tue); Lagarde , de Guindos (Wed); Schnabel, Lane (Thu)				
	BoE Speakers:					
	Fed Speakers:					
		US Presidential Election (Tuesday, 5th November)				
Mon 4th	EU-20:	09:00	Final S&P Composite PMI (October)	45.9	45.9	
	EU-20:	09:30	Sentix Index (November)	-13.8	-12.7	
Tue 5th	IRE:	01:01	AIB Services PMI (October)	55.7		
	GER:	08:55	Final Composite PMI (October)	48.4	48.4	
	UK:	09:30	Final S&P Composite PMI (October)	51.7	51.7	
	US:	13:30	International Trade (September)	-\$70.4bn	-\$83.1bn	
	US:	15:00	Non-Manufacturing ISM (October)	54.9	53.9	
	IRE:	16:30	Exchequer Returns (October) - Excluding Transfers	Oct'24: -€0.9bn Oct'24: +€3.1bn	-€0.5bn +€3.6bn	
Wed 6th	JPN:	00:30	Final Jibun Composite PMI (October)	49.4	49.4	
	GER:	07:00	Industrial Orders (September)	-5.8%	+1.5%	
	ITA:	08:45	HCOB Composite PMI (October)	49.7	49.5	
	FRA:	08:50	Final HCOB Composite PMI (October)	47.3	47.3	
	EU-20:	09:00	Final HCOB Composite PMI (October) - Final HCOB Services PMI	49.7 51.2	49.7 51.2	
	EU-20:	10:00	Producer Prices (September)	+0.6% (-2.3%)	-0.7% (-3.5%)	
	IRE:	11:00	Unemployment Rate (October)	4.3%	4.3%	
	US:	14:45	Final S&P Composite PMI (October) - Final S&P Services PMI	54.3 55.3	54.3 55.3	
	Thu 7th	GER:	07:00	Industrial Output (September)	+2.9% (-2.5%)	-1.5% (-2.9%)
		GER:	07:00	Trade Balance (September) - Exports	+€22.5bn +1.3%	+€20.9bn -2.5%
EU-20:		10:00	Retail Sales (September)	+0.2% (+0.8%)	+0.5% (+1.3%)	
IRE:		11:00	CPI Inflation (October) - HICP Inflation	-0.9% (+0.7%) Flash: +0.3% (+0.1%)	+0.3% (+0.8%) +0.3% (+0.1%)	
UK:		12:00	BoE Interest Rate Announcement - Bank Rate	5.00%	4.75%	
UK:		12:30	BoE Monetary Policy Report Press Conference			
US:		13:30	Initial Jobless Claims (w/e 28th October)	+216,000	+220,000	
US:		18:30	Fed FOMC Meeting Decision - Fed Funds target range	4.75-5.00%	4.50-4.75%	
US:		19:00	Fed FOMC Post-Meeting Press Conference			
Fri 8th		FRA:	07:45	Trade Balance (September) - Exports	-€7.4bn 49.7bn	
	ITA:	09:00	Industrial Output (September)	+0.1% (-3.2%)	-0.2% (-3.1%)	
	US:	15:00	Prelim. Uni. Michigan Consumer Sentiment (Nov)	70.5	71.0	

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