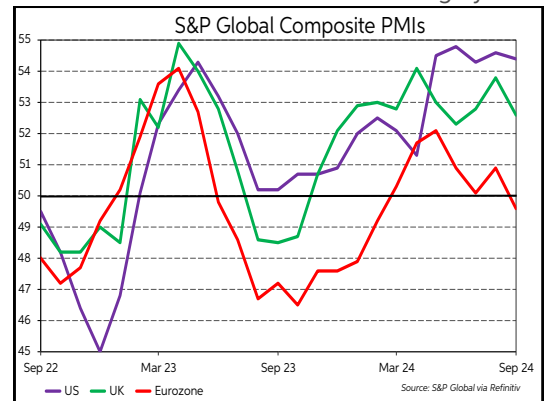


## Growth concerns driving the ECB

- The ECB policy meeting for October marked a firm shift in the focus of the Governing Council away from inflation towards growth concerns in the Eurozone.** As outlined in our ECB Watch publication, the central bank cut interest rates for a third time this year. It reduced rates by 25bps, with the Deposit rate lowered to 3.25%, while the Re-fi rate was decreased to 3.40%.
- The policy easing represented the first consecutive rate cuts from the ECB in 13 years and the decision was unanimous.** The statement noted that the decision was based on the ECB's updated assessment of (1) the inflation outlook, (2) dynamics of underlying inflation and (3) the strength of monetary policy transmission. This change in tone and language in both the statement and the press conference by President Lagarde, reflected the weakness of the incoming data since the last ECB meeting in September. Last month's PMI surveys were particularly concerning, with broad-based weakness across sectors and countries. These data were referenced throughout President Lagarde's press conference, alongside commentary that headline and core inflation are "all heading in the same direction: downwards".
- On inflation, while the headline rate is now below target at 1.7% in September, this reflects prior weakness in energy prices in the month, which has unwound somewhat in recent weeks.** For the remaining hawks on the Governing Council, the still elevated and sticky core rate of 2.7% in September, should be enough to advocate for a cautious easing cycle from here, which likely rules out a bumper 50bps cut at the next meeting. Indeed, the risks to the inflation outlook are likely still tilted to the upside in the Eurozone, given the exposure to geopolitical risks via supply chain and commodity market disruption from ongoing conflicts in Ukraine and the Middle East. Nevertheless, market pricing has softened in the aftermath of the meeting, with at least a 25bps rate cut expected in December.
- Unless incoming data surprise significantly to the upside of expectations, which seems unlikely, the ECB's data dependent approach will likely see it cut rates again in December by 25bps.** This would see the Deposit rate end the year at 3%, with further cuts likely in the new year also. Attention will soon turn to where the likely terminal rate is, with the President of the ECB unwilling to be drawn on this question, as yet. Futures pricing currently indicates that the Deposit rate could bottom out at around 2%, which suggests the market is of the view that the current easing cycle in the Eurozone still has a way to run yet.

**Turning to the week ahead, the main focus will be on the flash PMIs for October in the UK, US and Eurozone.** In the UK, the manufacturing PMI has printed in expansion territory for the past four months, although the index moved slightly lower to 51.5 in September. Meanwhile, the services PMI remains comfortably above the key 50 level, averaging 52.9 in Q3. Both PMIs are forecast to be practically unchanged at the start of Q4. In the US, a clear divergence in performance between sectors opened up in Q3. The services PMI stayed in growth mode, while the manufacturing sector moved into contraction territory, printing at 49.6, 47.9 and 47.3 during the quarter. The divergence between sectors is projected to continue in October. Likewise in the Eurozone, the services sector has been outperforming manufacturing, albeit the trend is more established. Worryingly though, as mentioned above, the pace of expansion in the services sector slowed, while the rate of contraction in manufacturing accelerated in September. Both surveys are expected to improve slightly in October, but the manufacturing PMI is set to stay well below 50.



- Elsewhere in the Eurozone, a slew of other important survey data are also due.** The flash reading of Eurozone consumer confidence is forecast to maintain some upward momentum, inching higher to -12.5 in October from -12.9. In terms of some key national survey data though, the bellwether German Ifo is projected to end a run of four straight monthly falls by inching higher in October. Similarly, the consensus is for the Italian ISTAT business confidence measure to rise marginally in the month. Meantime, the French INSEE business confidence index is expected to decline in October.
- In the UK, consumer confidence data for October will feature.** Having trended higher between April and August, consumer confidence unexpectedly fell sharply to -20.0 in September. A further deterioration to -22.0 is pencilled in for October. **Meanwhile in the US, updates on the housing market in the form of existing and new home sales for September are due.** Both metrics are forecast to rise in the month. Elsewhere, headline durable goods are projected to contract by 0.7% in September, although the less volatile ex-transport measure is expected to fall by just 0.1%.

	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	1.0860	1.09	1.10	1.11
EUR/GBP	0.8326	0.84	0.84	0.85
EUR/JPY	162.54	160	160	162
GBP/USD	1.3044	1.30	1.31	1.31
USD/JPY	149.65	147	145	146

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Lagarde</b> , Lane (Tue); <b>Lagarde</b> , Lane, Cipollone (Wed); Lane		
	<b>BoE Speakers:</b>	<b>Bailey</b> , Greene, Breeden (Tue); <b>Bailey</b> , Breeden (Wed); Mann (Thu)		
	<b>Fed Speakers:</b>	Logan (Mon); Harker (Tue); Bowman (Wed)		
		<b>IMF World Economic Outlook October 2024 (Tue)</b>		
<b>Mon 21st</b>	<b>GER:</b>	07:00	Producer Prices (September)	+0.2% (-0.8%) -0.2% (-1.0%)
<b>Tue 22nd</b>				
<b>Wed 23rd</b>	<b>SPA:</b>	08:00	Overnight Stays (September)	Sep'23: 37.9m
	<b>EU-20:</b>	15:00	Flash Consumer Confidence (October)	-12.9 -12.5
	<b>US:</b>	15:00	Existing Home Sales (September)	3.86m / -2.5% +3.90m / +1.0%
<b>Thu 24th</b>	<b>JPN:</b>	01:30	Flash Jibun Composite PMI (October)	52.0
	<b>FRA:</b>	08:15	Flash HCOB Composite PMI (October)	48.6 49.0
	<b>GER:</b>	08:30	Flash HCOB Composite PMI (October)	47.5 47.6
	<b>FRA:</b>	08:45	INSEE Business Climate (October)	98.0 97.0
	<b>EU-20:</b>	09:00	Flash HCOB Composite PMI (October)	49.6 49.9
			- Manufacturing / Services	45.0 / 51.4 45.3 / 51.6
	<b>UK:</b>	09:30	Flash Composite PMI (October)	52.6 52.6
			- Manufacturing / Services	51.5 / 52.4 51.4 / 52.4
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 14th October)	+241,000 +250,000
	<b>US:</b>	14:45	Flash S&P Composite PMI (October)	54.0 54.0
			- Manufacturing / Services	47.3 / 55.2 47.5 / 55.0
	<b>US:</b>	15:00	New Home Sales (September)	0.72m / -4.7% 0.72m / +0.3%
<b>Fri 25th</b>	<b>UK:</b>	00:01	Gfk Consumer Confidence (October)	-20.0 -22.0
	<b>JPN:</b>	00:30	Tokyo CPI Inflation (October)	(+2.2%)
	<b>EU-20:</b>	09:00	M3 Annual Money Growth (September)	2.9% 3.0%
	<b>GER:</b>	09:00	Ifo Business Climate (October)	85.4 85.5
	<b>ITA:</b>	09:00	ISTAT Business Climate (October)	86.7 87.0
	<b>ITA:</b>	09:00	ISTAT Consumer Confidence (October)	98.3 98.5
	<b>US:</b>	13:30	Durable Goods (September)	+0.0% -0.7%
			- Ex-Transport	+0.5% -0.1%
	<b>US:</b>	15:00	Final Uni. Michigan Consumer Sentiment (Oct)	68.9 69.1

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

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