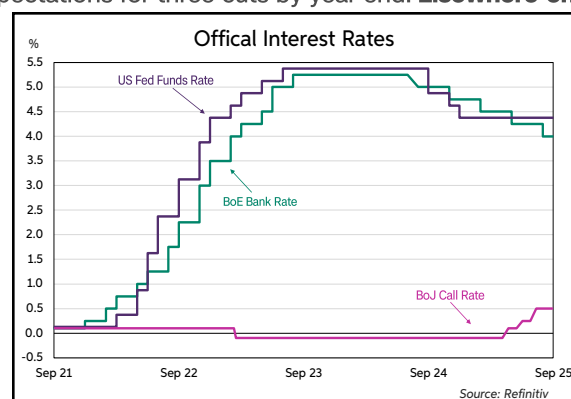


They think it's all over

- **The ECB's Governing Council meeting for September saw the central bank leave interest rates on hold for a second consecutive meeting.** The deposit and refi rates were maintained at 2.00% and 2.15%, respectively. Furthermore, the September meeting statement was short and offered little in the way of new guidance, other than to note that inflation "is currently at around the 2%" target and that the "assessment of the inflation outlook is broadly unchanged". Instead, the meeting statement focused on the updated set of macro staff projections that were published and helped to inform the Governing Council's policy deliberations/decision.
- **Overall, the updated batch of ECB forecasts paint a broadly similar outlook to those published in June.** The September edition of its GDP and inflation projections contained minor revisions, with the ECB more optimistic on the near-term growth prospects. Encouragingly, the ECB no longer views the risks to its economic outlook as being tilted to the downside. Instead, it is now of the view that growth risks have "become more balanced". It is not surprising then, that President Lagarde's comments during the press conference suggest that while the ECB retains a willingness to ease policy again, if required, it appears the ECB rate-cutting cycle is over for now. She stated the ECB's policy setting continued to be "in a good place" and that "inflation is where we want it to be".
- **In contrast, amid further soft US labour market data, markets are fully pricing in a rate cut by the Fed this Wednesday, with attention now turning to the frequency and magnitude of cuts by the central bank in the months ahead.** Overall, markets are pricing in up to three rate cuts by year end, and a total of circa 150bps of policy easing by the end of 2026. Against this backdrop, near term US real interest rate expectations (2yr overnight index swap – 2yr inflation swap) have rapidly converged with euro rates recently, falling from c.1.5% in January to just 0.35% presently. These interest rate dynamics should be supportive for EUR/USD, with euro rate futures firming slightly in the aftermath of the ECB meeting by circa 5bps; however, the currency pair is holding around the \$1.17 level for now. The subtle hawkish shift in tone by the ECB alongside a recent dovish tilt by the Fed also adds to the sense that the US economy could be moving back towards the European pack in terms of the near-term growth outlook.
- **Aside from the aforementioned Fed policy decision (25bps cut expected), the focus will be on the updated Summary of Economic Projections, including the interest rate dotplot.** The median projection in the dotplot released in June was for two rate cuts by the Fed this year, which is currently at odds with the markets expectations for three cuts by year end. **Elsewhere on the monetary policy front, both the Bank of England and the Bank of Japan will hold policy meetings this week.** However, neither is expected to change interest rates. The BoJ meeting statement/press conference will be assessed closely though, for signals suggesting a rate hike in Q4. Similarly, investors will monitor the BoE voting breakdown and the meeting statement for guidance on the future path of rate cuts. Potential changes in the pace of quantitative tightening will also garner significant attention.
- **Ahead of the BoE policy announcement, a fresh batch of UK labour market and CPI data will be released.** In recent months both metrics have been moving in the wrong direction. Starting with the labour market, conditions have softened, as indicated by a steady increase in the unemployment rate from 4.4% at the start of the year to 4.7% in May and June. Worryingly, payrolls have contracted in ten of the past twelve months, yet earnings growth remains elevated at +4.6% y/y in the three months to June. The consensus is for the unemployment rate to stay at 4.7% in July, while average earnings growth is projected to rise to +4.7 y/y. In terms of CPI, both the headline and core rates have risen in the past two months. They stood at 3.8% in July. Expectations are for the former to slow to 3.7%, while the latter is forecast to rise to 3.9% in August. Elsewhere in the UK, retail sales (Aug) and consumer confidence (Sept) are due.
- **In the US, retail sales figures for August will also be released.** So far this year, headline retail sales have been rather volatile, declining in three of the last seven months, albeit the overall trajectory in the level of sales has been upwards. Meanwhile, the control group measure (a key core sales metric) has consistently expanded on a monthly basis, after a sharp contraction in January. A 0.2% increase in the headline and a 0.4% rise in the control group are pencilled in for August. In contrast, US industrial production is forecast to contract by 0.1% in the month.
- **In the Eurozone, industrial production (Jul) will be the main data release.** A modest 0.5% m/m rebound in output is anticipated, following a 1.3% fall in June. The final reading of Eurozone HICP inflation for August and labour costs data for Q2 are also on the data docket.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.00	4.00	3.75	3.50
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
EUR/USD	1.1717	1.18	1.19	1.20
EUR/GBP	0.8644	0.86	0.85	0.84
EUR/JPY	173.09	170	170	168
GBP/USD	1.3553	1.37	1.40	1.43
USD/JPY	147.69	144	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Schnabel, Lagarde (Mon); Lagarde (Wed); Lagarde , Schnabel (Thu)		
	BoE Speakers:				
	Fed Speakers:				
Mon 15th	EU-20:	10:00	Total Trade Balance (July) - EuroStat Trade	€2.8bn €7.0bn	
	US:	13:30	NY Fed / Empire State Index (September)	11.9	5.0
Tue 16th	UK:	07:00	ILO Unemployment Rate (July)	4.7%	4.7%
	UK:	07:00	Employment Change (July)	+238k	+220k
	UK:	07:00	HMRC Payrolls Change (August)	-8k	
	UK:	07:00	Average Earnings (July) - Ex-Bonus	(+4.6%) (+5.0%)	(+4.7%) (+4.8%)
	ITA:	09:00	Final HICP Inflation (August)	-0.2% (+1.7%)	-0.2% (+1.7%)
	EU-20:	10:00	Industrial Production (July)	-1.3% (+0.2%)	+0.5% (+1.7%)
	EU-20:	10:00	Labour Costs (Q2) - Wages	(+3.4%) (+3.4%)	
	GER:	10:00	ZEW Economic Sentiment (September)	34.7	27.0
	US:	13:30	Import Prices (August)	+0.4% (-0.2%)	-0.2% (-0.1%)
	US:	13:30	Retail Sales (August) - Ex-Autos - Control Group	+0.5% (+3.9%) +0.3% +0.5%	+0.2% (+4.3%) +0.4% +0.4%
	US:	14:15	Industrial Production (August) - Manufacturing Output - Capacity Utilisation	-0.1% (+1.4%) +0.0%	+0.0% (+0.8%)
	US:	15:00	NAHB Homebuilder Sentiment (September)	32.0	33.0
Wed 17th	JPN:	00:50	Total Trade Balance (August) - Exports	-¥118.4bn (-2.6%)	-¥513.6bn (-1.9%)
	UK:	07:00	CPI Inflation (August) - Core CPI - Services CPI	+0.1% (+3.8%) +0.2% (+3.8%) +0.7% (+5.0%)	+0.3% (+3.7%) (+3.9%) (+5.0%)
	EU-20:	10:00	Final HICP Inflation (August) - Ex-Food & Energy - Ex-Food, Energy, Alcohol & Tobacco	+0.2% (+2.1%) +0.3% (+2.3%) +0.3% (+2.3%)	+0.2% (+2.1%) +0.3% (+2.3%) +0.3% (+2.3%)
	IRE:	11:00	Residential Property Price Index (July)	+0.9% (+7.8%)	+0.7% (+7.1%)
	US:	13:30	Building Permits (August) - Housing Starts	+1.36m / -2.2% +1.43m / +5.2%	+1.37m / +0.6% +1.37m / -4.4%
	US:	19:00	Fed FOMC Policy Announcement - Fed Funds Target Range	4.25-4.50%	4.00-4.25%
	US:	19:30	Fed FOMC Post-Meeting Press Conference		
Thu 18th	JPN:	00:50	Machinery orders (July)	+3.0% (+7.6%)	-1.7% (+5.4%)
	UK:	12:00	BoE MPC Meeting Statement - Bank Rate	4.00%	4.00%
	US:	13:30	Initial Jobless Claims (w/e 8th September)	+263,000	+240,000
	US:	13:30	Philly Fed Business Index (September)	-0.3	2.3
Fri 19th	JPN:		BoJ Policy Rate Decision - Call Rate	+0.50%	+0.50%
	UK:	00:01	GfK Consumer Confidence (September)	-17.0	-18.0
	JPN:	00:30	CPI Inflation (August) - Core CPI	(+3.1%) (+3.1%)	(+2.7%)
	UK:	07:00	Retail Sales (August) -Ex-Fuel	+0.6% (+1.1%) +0.5% (+1.3%)	+0.3% (+0.6%) +0.5% (+1.0%)
	FRA:	07:45	INSEE Business Climate (September)	96.0	96.0
	GER:	08:00	Producer Prices (August)	-0.1% (-1.5%)	-0.1%

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

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