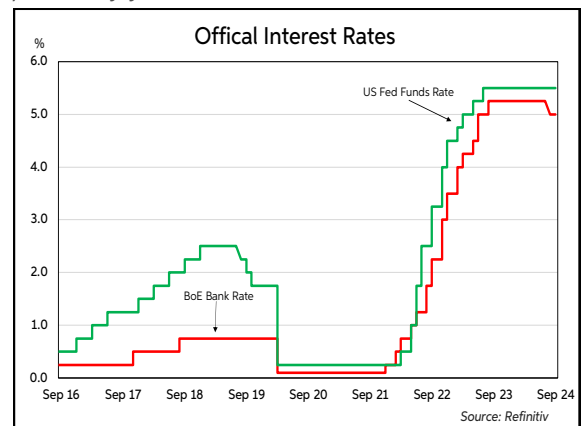


ECB's tightrope between growth and inflation

- **The ECB cut interest rates for a second time this year at the September policy setting meeting of its Governing Council, but a cautious trajectory for rate cuts in the coming months risks choking off an anaemic growth profile across the Eurozone.** The Deposit rate was lowered by 25bps to 3.50% while the Refi rate was cut by 60bps to 3.65%, which included the previously announced technical adjustment of a reduction in the spread between the Deposit and Refi rates from 50bps to 15bps. The rate cuts were very much in line with market expectations, but much uncertainty surrounds the future pace of easing. In this regard, President Lagarde was purposely vague in her outlook. She emphasised that the ECB is not pre-committing, and that it will continue to take a data dependent, meeting-by-meeting approach, meaning the declining path of rates is not predetermined.
- **Market rate expectations for the ECB over recent weeks have tended to lean towards the Deposit rate ending the year at 3%.** In other words, an additional 50bps of easing before year end. While an October cut has been all but ruled out by markets, this implies a 50bps cut in December. We continue to be of the view that the ECB will implement one more 25bps cut this year. We think the central bank will remain on hold at its next meeting in October and cut by 25bps in December.
- **However, the exceptional caution of the ECB in its cutting cycle might leave it behind the curve in early 2025, if Eurozone macro data continues to undershoot expectations, and mean a 50bps cut may be necessary at some point in a weaker growth environment.** Of the main engines of Eurozone growth, the German economy remains in the doldrums, while ongoing political uncertainty in France is weighing on sentiment, and could in turn blunt French growth in the coming months. Indeed, the ECB revised down slightly its near term outlook for growth compared to its last forecast in June. President Lagarde also noted the risks to economic growth remain “tilted to the downside”. The most likely path for now is that the ECB will cut in line with its quarterly forecasts, rather than at consecutive meetings, unencumbered in its sole mandate of achieving 2% inflation. This may well place it at odds with the US Fed, which could cut rates at successive meetings, given its renewed focus towards the labour market side of its dual mandate.
- **Indeed, the market spotlight will be focused on the US Federal Reserve this week, as it is widely expected to cut rates for the first time this cycle.** At the Jackson Hole Economic Symposium, Chair Powell stated that, “*the time has come for policy to adjust*”, indicating that the Fed should start to lower rates. His remarks have been echoed by other Fed officials, a number of whom have placed a growing emphasis on softening labour market conditions. However, there is some uncertainty as to whether the Fed will opt for a 25bps or a 50bps cut this week. Futures pricing suggests the market sees a less than 50% chance of rates being lowered by 50bps. Aside from the policy decision, Chair Powell’s press conference and the updated interest rate projections will be under the microscope, as investors look for guidance on the future path of policy. Markets are currently pricing in an aggressive cutting cycle in the US, with rate cuts worth 115bps expected by year end.
- **Investors will also be paying close attention to remarks from BoJ Governor Ueda this week.** The BoJ hiked rates by 15bps in July, bringing the call rate up to 0.25%. However, the decision in July sparked high levels of volatility on markets, as yen carry trades were unwound. Despite hawkish remarks from BoJ officials since then, the central bank is expected to leave policy on hold and proceed cautiously with any further tightening.
- **Likewise, the BoE is projected to leave policy unchanged this week.** In a very close 5-4 decision, the MPC voted to lower Bank rate by 25bps to 5.00% in August, but since then officials have been coy in regard to a further rate cut this month. Current futures pricing suggests the market is of the view that rates will remain at 5.00% this week, although, Bank rate is expected to be lowered in November and in December, meaning it would end the year at 4.50%.
- **On the data front, a busy UK schedule includes CPI inflation for August.** Headline CPI inflation fell to 2% in May and stayed there in June, reaching the target for the first time since mid-2021. However, it rose slightly to 2.2% in July. Furthermore, core inflation remains quite sticky, at 3.3% in July, amid elevated services inflation which printed at 5.2%. The consensus is for the headline rate to remain at 2.2% in August, while the core rate is forecast to rise to 3.5%. Elsewhere in the UK, a 0.2% increase in retail sales is pencilled in for August. Meantime, consumer confidence is set to be unchanged in September, having been on an upward trend so far this year. **In the US, retail sales data are also due.** A modest 0.2% fall is expected in August, following a sharp 1% rise in July. US industrial production is anticipated to increase by 0.2% in August. **Meantime in the Eurozone, the flash reading of consumer confidence for September is the highlight.** The metric is expected to improve marginally.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	5.375	5.125	4.625	4.125
ECB Deposit	3.50	3.50	3.25	3.00
BoE Repo	5.00	5.00	4.50	4.00
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 Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.1091	1.11	1.12	1.13
EUR/GBP	0.8436	0.84	0.84	0.84
EUR/JPY	156.08	160	160	160
GBP/USD	1.3147	1.32	1.33	1.35
USD/JPY	140.72	144	143	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
This Week:	ECB Speakers:	de Guindos, Lane (Mon); Schnabel (Thu); Lagarde (Fri)			
	BoE Speakers:	Mann (Fri)			
	Fed Speakers:				
Mon 16th	ITA:	09:00	Final HICP Inflation (August)	-0.1% (+1.3%)	-0.1% (+1.3%)
	EU-20:	10:00	Total Trade (July)	+€22.3bn	
			- EuroStat Trade	+€17.5bn	
	EU-20:	10:00	Labour Costs (Q2)	(+5.1%)	
			- Wages	(+5.3%)	
	US:	13:30	NY Fed / Empire State Index (September)	-4.7	-3.85
Tue 17th	GER:	10:00	ZEW Economic Conditions (September)	19.2	+17.0
	US:	13:30	Retail Sales (August)	+1.0% (+2.7%)	-0.2% (+1.8%)
			- Ex-Autos	+0.4%	+0.2%
			- Control Group	+0.3%	
	US:	14:15	Industrial Production (August)	-0.6% (-0.2%)	+0.2% (+0.0%)
			- Capacity Utilisation	77.8%	77.9%
			- Manufacturing Output	-0.3%	
	US:	15:00	NAHB Homebuilder Sentiment (September)	39.0	40.0
Wed 18th	JPN:	00:50	Machinery Orders (July)	+2.1% (-1.7%)	+0.5% (+4.2%)
	JPN:	00:50	Trade Balance (August)	-¥621.8bn	-¥1,380.0bn
			- Exports	(+10.3%)	(+10.0%)
	UK:	07:00	CPI Inflation (August)	-0.2% (+2.2%)	+0.3% (+2.2%)
			- Core-CPI	+0.1% (+3.3%)	+0.4% (+3.5%)
			- Services CPI	(+5.2%)	(+5.5%)
	UK:	07:00	PPI Output Price Inflation (August)	+0.0% (+0.8%)	
			- PPI Input Price Inflation	-0.1% (+0.4%)	
	EU-20:	10:00	Final HICP Inflation (August)	+0.0% (+2.2%)	+0.0% (+2.2%)
			- Ex-Food & Energy	-0.1% (+2.8%)	-0.1% (+2.8%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.3% (+2.8%)	+0.3% (+2.8%)
	IRL:	11:00	Residential Property Price Index (July)	+0.7% (+8.6%)	+0.5% (+8.7%)
	US:	13:30	Building Permits (August)	+1.4m / -3.3%	+1.4m / +0.3%
			- Housing Starts	+1.2m / -6.8%	+1.3m / +6.1%
	US:	19:00	Fed Interest Rate Announcement	5.25-5.50%	5.00-5.25%
	US:	19:30	Fed FOMC Post-Meeting Press Conference		
Thu 19th	UK:	12:00	BoE Interest Rate Announcement	5.00%	5.00%
	US:	13:30	Initial Jobless Claims (w/e 9th September)	+230,000	+230,000
	US:	13:30	Philly Fed Index (September)	-7.0	0.5
	US:	15:00	Existing Home Sales (August)	+4.0m / +1.3%	+3.9m / -1.3%
Fri 20th	JPN:		BoJ Interest Rate Decision	+0.25%	+0.25%
	UK:	00:01	Gfk Consumer Confidence (September)	-13.0	-13.0
	JPN:	00:30	CPI Inflation (August)	(+2.7%)	(+2.8%)
			- Core-CPI (August)	(+1.9%)	
	GER:	07:00	Producer Price Inflation (August)	+0.2% (-0.8%)	+0.0% (-1.0%)
	UK:	07:00	Retail Sales (August)	+0.5% (+1.4%)	+0.2% (+1.4%)
			- Ex-Fuel	+0.7% (+1.4%)	+0.4% (+1.1%)
	FRA:	07:45	INSEE Business Climate (September)	97.0	97.0
	EU-20:	15:00	Flash consumer Confidence (September)	-13.5	-13.0

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