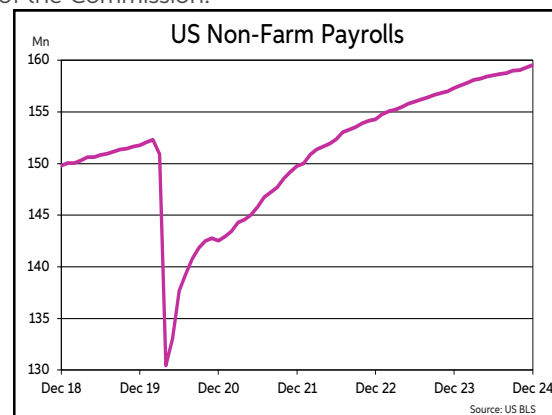


US innovates, China imitates, EU (de)regulates?

- **There were market ructions over the past week as the release of the Chinese-developed AI model “DeepSeek” saw a sharp sell-off in AI-exposed stocks in the US, led by chipmaker Nvidia.** However, there quickly followed accusations, reported in the financial media, that the Chinese developer had inappropriately used the market-leading Open AI’s intellectual property in the development of its lower cost DeepSeek model. The episode plays to the old maxim that the “US innovates and China imitates”. However, lost amid the geopolitical skirmishes between the world’s two largest economies was a potentially significant shift in EU industrial policy, seeking to shed its image of “Europe regulates”, amongst the three major economic blocks.
- **Europe is at a crossroads in terms of its economic performance, with growth diverging sharply from the US in recent years, depressed by the poor performance of the German economy, in particular.** This week’s Eurozone GDP data showed a weak 0.7% gain in GDP last year, compared to a 2.8% rise in the US. This partly prompted the ECB to cut rates by a further 25bps, with President Lagarde highlighting - once again - that risks to the growth outlook are tilted to downside, while the Fed held steady, noting the robust domestic US growth picture.
- **The recent Mario Draghi competitiveness report laid out the challenge starkly, that the EU’s industrial policy, regulatory structure and disjointed capital markets are not fit for purpose in the current global environment** in which other nations are proactively supporting national champions in the private sector, and aggressively applying trade restrictions to global partners to win market share. A recent example is the surge in Chinese automotive production and exports, which has upended the once-dominant German car industry.
- **As the new European Commission beds down, President von der Leyen this week presented her initial plan to implement the Draghi recommendations to boost EU growth in the coming years.** The so called “Competiveness Compass” marks a shift in tone, if not yet policy, in seeking to reduce red tape and boost innovation. Measures include EU-wide rules to support start-ups as an alternative to fragmented national regulatory systems, measures to entice M&A, and reduce energy costs. First off will be a move to simplify legislation for sustainable finance and taxonomy rules, which have become onerous for EU firms, followed by detailed plans in other key areas of energy and AI.
- **So, big on promise but light on detail thus far, but policymakers have at least admitted there is a growth problem in Europe.** The plan could mark a turning point for the European economy, if von der Leyen can convince the key member states to back the measures and push through some difficult reforms over the five-year term of the Commission.
- **Turning to the week ahead, the monetary policy spotlight will shift to the Bank of England.** The MPC lowered Bank rate by 50bps last year to 4.75%, but opted to leave policy on hold in December. However, the MPC decision was split 6:3, with the three dissenters all voting for a 25bps rate cut. Since then, inflation has declined, with headline and core CPI falling to 2.5% and 3.2%, respectively - their lowest levels since September. At the same time, services inflation eased to 4.4% in December, its lowest reading since March 2022. Against this backdrop, market expectations for a potential rate cut in February have steadily risen in recent weeks. Current pricing now indicates the market sees around a 90% chance of a 25bps reduction on Thursday. Aside from the policy decision, the updated Monetary Policy Report and the accompanying press conference will garner significant attention, with investors seeking guidance on the future path of policy.



- **On the data front, the US labour market report for January will be the highlight.** Labour market conditions softened somewhat last year, albeit they remained tight overall. The pace of payroll expansion slowed throughout the year, the unemployment rate edged slightly higher, and average earnings growth cooled marginally. The consensus is for payrolls to rise by 170k in January (matching the Q4 average), while the unemployment rate is forecast to be unchanged at 4.1%, with earnings growth edging down to +3.8% y/y, from +3.9% y/y. Elsewhere in the US, both the manufacturing and non-manufacturing ISMs are projected to improve in January, albeit with the former remaining in contraction mode.
- **In the Eurozone, the flash reading of HICP inflation for January will be in focus.** Having moved lower in the first three quarters of 2024, little further progress has been made in recent months. Since it troughed at 1.7% last September, the headline rate has re-accelerated, climbing to 2.4% in December while core inflation has been stuck at 2.7% over the same period. Expectations are for both rates to be unchanged at 2.4% and 2.7%, respectively in January. Meanwhile, Eurozone retail sales are forecast to rise by 0.2% in December. A number of updates in relation to German industry will also be dotted throughout the week.

Interest Rate Forecasts				
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.75	2.50	2.25	2.00
BoE Repo	4.75	4.50	4.25	4.00
BoJ OCR	0.50	0.50	0.50	0.50

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)				
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
EUR/USD	1.0382	1.07	1.08	1.08
EUR/GBP	0.8357	0.83	0.84	0.84
EUR/JPY	160.66	161	161	160
GBP/USD	1.2417	1.28	1.28	1.28
USD/JPY	154.74	150	150	149

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lane (Wed) de Guindos (Fri)		
	BoE Speakers:		Pill (Fri)		
	Fed Speakers:		Musalem (Mon); Bostic, Daly (Tue); Barkin, Jefferson, Bowman & Goolsbee (Wed); Bowman, Kugler (Fri)		
Mon 3rd	IRE:		St. Brigid's Day (Bank Holiday)		
	EU-20:	09:00	Final HCOB Composite PMI (January)	46.1	46.1
	UK:	09:30	Final S&P Manufacturing PMI (January)	48.2	48.2
	EU-20:	10:00	Flash HICP Inflation (January)	+% (+2.4%)	(+2.4%)
			- Ex-Food & Energy	+% (+2.7%)	(+2.7%)
			- Ex-Food, Energy, Alcohol & Tobacco	+% (+2.7%)	(+2.6%)
	ITA:	10:00	Flash HICP Inflation (January)	+0.1% (+1.4%)	
	US:	14:45	Final S&P Manufacturing PMI (January)	50.1	50.1
	US:	15:00	Manufacturing ISM (January)	49.3	49.6
Tue 4th	IRE:	01:01	AIB Irish Manufacturing PMI (January)	49.1	
	US:	15:00	JOLTS Job Openings (December)	8.098m	
Wed 5th	JPN:	00:30	Final Composite PMI (January)	51.1	51.1
	FRA:	07:45	Industrial Output (December)	0.2%	+0.1%
	ITA:	08:45	HCOB Composite PMI (January)	49.7	
	FRA:	08:50	Final HCOB Composite PMI (January)	48.3	48.3
	GER:	08:55	Final HCOB Composite PMI (January)	50.1	50.1
	EU-20:	09:00	Final HCOB Composite PMI (January)	50.2	50.2
			- Final HCOB Services PMI (January)	51.4	51.4
	UK:	09:30	Final S&P Composite PMI (January)	50.9	50.9
			- Final S&P Services PMI (January)	51.2	51.2
	EU-20:	10:00	Producer Price Inflation (December)	+1.6% (-1.2%)	+0.3% (-0.2%)
	US:	13:15	ADP National Employment (January)	+122,000	+150,000
	US:	13:30	International Trade (December)	-\$78.2bn	
	US:	14:45	Final S&P Composite PMI (January)	52.4	52.4
			- Final S&P Services PMI	52.8	52.8
	US:	15:00	Non-Manufacturing ISM (January)	54.1	
Thu 6th	IRE:	01:01	AIB Services PMI (January)	57.1	
	GER:	07:00	Industrial Orders (December)	-5.4%	+2.5%
	EU-20:	10:00	Retail Sales (December)	+0.1% (+1.2%)	+0.2% (+1.9%)
	IRE:	11:00	Unemployment Rate (January)	4.2%	4.2%
	UK:	12:00	BoE Monetary Policy Decisions Announcement		
			- Bank Rate	4.75%	4.50%
	UK:	12:30	BoE Monetary Policy Report Press Conference		
	US:	13:30	Initial Jobless Claims (w/e 27th January)	+207,000	+215,000
	IRE:	16:30	Exchequer Returns (January 2025)	Jan'24: -€+2.3bn	Jan'25: +€+2.0bn
Fri 7th	GER:	07:00	Industrial Output (December)	+1.5% (-2.9%)	-0.7% (-1.3%)
	GER:	07:00	Trade Balance (December)	+€19.7bn	
			- Exports	+2.1%	-0.5%
	US:	13:30	Non-Farm Payrolls (January)	+256,000	+170,000
			- Unemployment	4.1%	4.1%
			- Average Earnings	+0.3% (+3.9%)	+0.3% (+3.8%)
	US:	15:00	Prelim. Uni. Michigan Consumer Sentiment (Feb)	71.1	72.0

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

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