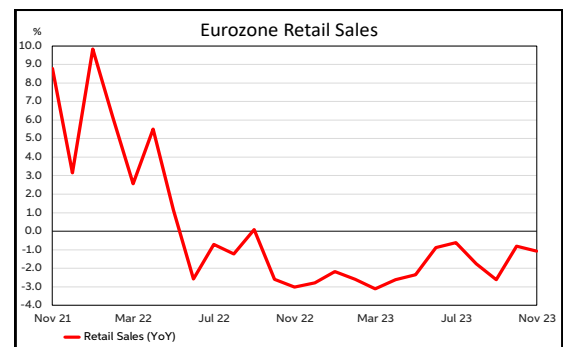


Central Banks Slowly Pivoting to Rate Cuts

- **Following the ECB's hold in January, the latest Fed and Bank of England meetings saw them announce their own (non) decisions on rates.** While it was widely expected that monetary policy would remain on pause, central bank watchers were parsing the press conferences for subtle signs that both central banks would move soon. In the aftermath of the meetings, rate futures had moved little, with markets having already digested incoming data and comments by key central bankers over the Christmas and New Year period, and adjusted rate expectations accordingly.
- **The expected pivot signalled by the Fed was in dropping its tightening bias by removing the reference to the “extent of any additional policy firming”.** Instead, it replaced it with a more neutral phrase, stating that “any adjustments to the target range for the fed funds rate”. The market still expects a first rate cut at its May meeting, with a total of circa 125bps of cuts priced in by year-end, which is considerably more aggressive than the December guidance by FOMC members. However, these expectations could yet converge when the Fed publishes new economic projections after its next meeting on March 20th, which will take into account new data for both inflation and the labour market.
- **Market rate expectations are considerably more conservative for the Bank of England, with a first cut priced in for June and around 100bps of policy easing anticipated by year end.** For his part, Governor Bailey stated that the question for the MPC to ponder is “no longer how restrictive monetary policy has to be”. Instead, its deliberations are now centred on “how long do we need to keep policy restrictive”. Certainly, the new forecasts published by the Bank suggests its inflation expectations have lowered since last November, and further good news on the supply side of the economy in the Monetary Policy Report supports this disinflation theme. However, with uncertainties on the horizon in the form a potential giveaway Budget in March and a change of Government thereafter, the Governor remained reticent to provide firmer guidance. The BoE meets once more this quarter, but the policy decision will not be followed by a press conference. Thus, the May 9th meeting and accompanying Monetary Policy Report may be the next set piece for the Bank to shift its guidance or policy, with a firmer near term steer on fiscal policy likely at that point also.
- **On currency markets over the past week, the main pairs have seen some volatility, albeit contained within well-defined recent ranges.** EUR/USD has traded towards the mid-point of its recent \$1.07-1.09 range, and sterling has been operating for the most part in and around the \$1.27 threshold. EUR/GBP has also remained range bound, changing hands at the 85.5p mark. Bond yields were lower on the week, owing to central bank news flow. Although there was some reversal of this following Friday's stronger than expected US labour market data.
- **Turning to the week ahead, there is a relatively quiet data schedule on both sides of the Atlantic.** In the Eurozone, the main highlight will be retail sales for December. Having contracted throughout Q3, retail sales rose by 0.4% in October, before declining by 0.3% in November. Furthermore, the fall in November was broad based, with all categories except fuel registering a decline. In year-on-year terms, retail sales were 1.1% lower in November. The consensus is for a sharp 1.0% fall in sales in December, with Germany (-1.6%) and Spain (-0.7%), having already reported weak data for the month. Meanwhile, Eurozone producer price inflation is forecast to decline to -10.5% in December, from -8.8% in November. In terms of a timelier update, the EU Sentix index, is projected to improve for a fourth consecutive month, rising marginally to -15.0 in February, from -15.8.
- **German industrial production data are also due for release.** German industrial output has struggled to recover since the COVID-19 pandemic. Furthermore, it has weakened quite sharply throughout 2023. Indeed, output has dropped for the last six consecutive months, including by 0.7% in November, meaning it was down almost 5% in year-on-year terms, and 9% below its pre-pandemic level. A 0.2% contraction in industrial production is pencilled in for December. Meanwhile, German industrial orders are forecast to stagnate in the month, indicating that demand in the sector remains subdued. Elsewhere in the Eurozone, Italian industrial production (December), and measures of business and consumer confidence (both January) are due.
- **In the US, the non-manufacturing ISM for January will be released.** The index has been trending lower since August, albeit while remaining north of the key 50 level, consistent with a slowdown in the pace of activity in the sector. However, it is expected to move higher to 52.0 in January from 50.5 in December. **On the home front, Exchequer Returns and the services PMI for January headline a holiday shortened week.**



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2024	2024	2024	2024
Fed Funds	5.375	5.375	4.875	4.375
ECB Deposit	4.00	4.00	3.75	3.25
BoE Repo	5.25	5.25	5.00	4.50
BoJ OCR	-0.10	-0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
	2024	2024	2024	2024
EUR/USD	1.0789	1.10	1.11	1.12
EUR/GBP	0.8536	0.86	0.86	0.87
EUR/JPY	160.11	158	155	152
GBP/USD	1.2636	1.28	1.29	1.29
USD/JPY	148.37	144	140	136

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lane (Thu); Cipollone (Fri)		
	BoE Speakers:		Breedon (Wed); Mann (Thu)		
	Fed Speakers:		Bostic (Mon); Mester, Harker, Collins, Kashkari (Tue); Kugler, Barkin, Collins, Bowman (Wed); Barkin (Thu)		
Mon 5th	IRL:		St. Brigids Day Holiday (Bank Holiday)		
	JPN:	00:30	Final Jibun Composite PMI (January)	51.1	51.1
			- Services	52.7	52.7
	GER:	07:00	Trade Balance (December)	+€20.4bn	+€18.8bn
			- Exports	+3.7%	-2.0%
	ITA:	08:45	HCOB Composite PMI (January)	48.6	
	FRA:	08:50	Final HCOB Composite PMI (January)	44.2	44.2
	GER:	08:55	Final HCOB Composite PMI (January)	47.1	47.1
	EU-20:	09:00	Final HCOB Composite PMI (January)	47.9	47.9
			- Final HCOB Services PMI (January)	48.4	48.4
	EU-20:	09:30	EU Sentix (February)	-15.8	-15.0
	UK:	09:30	Final S&P Composite PMI (January)	52.5	52.5
			- Final S&P Services PMI (January)	53.8	53.8
	EU-20:	10:00	Producer Prices (December)	-0.3% (-8.8%)	-0.8% (-10.5%)
	US:	14:45	Final S&P Composite PMI (January)	52.3	52.3
			- Final S&P Services PMI (January)	52.9	52.9
	US:	15:00	Non-Manufacturing ISM (January)	50.6	52.0
Tue 6th	IRL:	01:01	AIB Services PMI (January)	53.2	
	GER:	07:00	Industrial Orders (December)	+0.3%	+0.0%
	ITA:	09:00	ISTAT Business Confidence (January)	95.4	
	ITA:	09:00	ISTAT Consumer Confidence (January)	106.7	
	EU-20:	10:00	Retail Sales (December)	-0.3% (-1.1%)	-1.0% (-1.1%)
	IRL:	14:00	Exchequer Returns (January)	Jan'23: +€2.8bn	
Wed 7th	GER:	07:00	Industrial Output (December)	-0.7% (-4.9%)	-0.2%
	UK:	07:00	Halifax House Prices (January)	+1.1% (+1.7%)	
	FRA:	07:45	Trade Balance (December)	-€5.9bn	
	US:	13:30	International Trade (December)	-\$63.2bn	-\$62.4bn
Thu 8th	UK:	00:01	RICS Housing Survey (January)	-30.0	-26.0
	CHINA:	01:30	CPI Inflation (January)	+0.1% (-0.3%)	+0.4% (-0.5%)
	CHINA:	01:30	PPI Inflation (January)	(-2.7%)	(-2.6%)
	JPN:	05:00	Economy Watchers Poll (January)	50.7	
	US:	13:30	Initial Jobless Claims (w/e 29th January)	+224,000	+217,000
Fri 9th	GER:	07:00	Final HICP Inflation (January)	-0.2% (+3.1%)	-0.2% (+3.1%)
	ITA:	09:00	Industrial Output (December)	-1.5% (-3.1%)	+0.9%

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

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