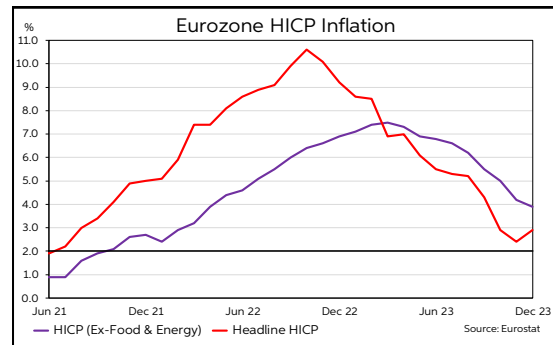


The Lady's Not for Turning?

- **The first policy setting meeting of the ECB's Governing Council for 2024 saw the Central Bank maintain its key deposit rate at 4%, as expected.** It represented the third policy meeting in-a-row that the ECB has not hiked rates. The question remains though - when will the ECB begin its rate cutting cycle in 2024? President Lagarde was not for turning just yet, stating during her press conference that the consensus in the Governing Council was that it was premature to discuss rate cuts. However, her less than wholehearted commitment to her prior "summer 2024" rate cut comment at Davos yielded a dovish response from markets, with investors increasing bets on the possibility of an earlier spring cut.
- **Eurozone futures contracts softened in the initial aftermath of the press conference and currently (Friday lunchtime), the market is almost fully pricing in a first rate cut in April.** Meantime, a total of 140bps in rate cuts are now priced in by year end, compared to 125bps before the meeting statement was released. This is in line with Fed futures contracts also, with 140bps of easing expected in the US by year end, but much could change as the Fed meets on Wednesday.
- **The ECB also repeated that it will follow a data-dependent approach in making future monetary policy decisions and will ensure that rates are sufficiently restrictive for as long as necessary to restore price stability.** In this context, President Lagarde stated that the ECB will be following wage growth developments and underlying inflation metrics, particularly in services. This focus on services inflation will mean ECB watchers will be paying close attention to survey measures of wage inflation and collective wage bargaining agreements due for renegotiation across the Eurozone in the coming months. While wages are a key driver of still sticky services inflation (4% y/y in December), it remains challenging to get a firm steer on current trends across the bloc. The most recent official data for the Eurozone were for Q3 2023, when hourly wage costs rose by 5.3% y/y, with the Q4 data not due for release until March. In the meantime, a variety of other sources provide an incomplete picture of current wage trends in the Eurozone, but suggest price pressures remain strong in a tight labour market.
- **The most notable feature of the main currency markets over the past week has been the strength of the dollar.** EUR/USD has traded towards the low end of its recent range \$1.08-1.10, as the market digested the ECB decision and reacted to another stellar US GDP print for Q4. Meantime, sterling has traded in a \$1.26-1.28 band versus the dollar this week and EUR/GBP been confined to a narrow 85-85.5p range. With the Fed (Jan 31st) and Bank of England (Feb 1st) meetings on the horizon and key inflation prints for January to follow shortly after, increased volatility could be a feature of currency markets in the coming week.

- **Both the Fed and the BoE are expected to leave policy on hold this week.** Indeed, recently markets have scaled back expectations of a Fed rate cut in Q1, and lowered the total magnitude of policy easing anticipated by year end for both economies. Nevertheless, the market is pricing in rate cuts of 140bps in the US this year, almost double the median projection of FOMC officials for 75bps of easing. Meantime, the BoE finds itself in a difficult predicament, as the labour market remains tight, inflation is showing signs of stickiness (the core rate stayed at 5.1% in December), while growth forecasts remain muted this year. Thus, the main focus of the meetings will be in relation to guidance on the outlook at the respective post-meeting press conferences. The BoE's updated Monetary Policy Report will also garner attention.



- **Data-wise, a busy US calendar includes a number of updates on the labour market, including the latest payroll data.** There have been tentative signs of a softening in labour market conditions recently, albeit, they remain tight overall. Payroll growth slowed from an average of 245k per month between Q1-Q3 2023, to 165k per month in Q4. Meantime, the jobless rate remains low, at 3.7% in December, although this partly reflects a drop in labour force participation. Furthermore, wage growth is still running at elevated levels. Average earnings were up by 4.1% y/y in Q4, just slightly below the 4.4% run-rate seen between Q1-Q3. In January, an increase of 178k is pencilled in for non-farm payrolls, while the unemployment rate is forecast to rise to 3.8%, with average earnings growth remaining at 4.1%. In terms of other labour market indicators, job openings as registered by JOLTS for December is due. The wages component of the Employment Cost Index - a key metric followed by the Fed - will also feature.
- **In the Eurozone, the flash reading of HICP inflation for January will be the highlight.** The headline rate fell sharply throughout last year, declining to just 2.4% in November, its lowest level since July 2021, before rising to 2.9% in December. Encouragingly, core inflation has been on a clear downward path in recent months, with the core rate easing to 3.9% in December. The consensus is for the headline rate to edge down to 2.8% in January, while the core rate is expected to inch lower to 3.4%. Regarding the labour market, the consensus is that the unemployment rate stayed at 6.4% in December. Elsewhere, the first reading of Q4 GDP is projected to show the Eurozone entered a shallow technical recession in the second half of 2023. Output is forecast to have contracted by 0.1% in Q4. In terms of more timely indicators, the EC sentiment indices for January are due.

	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	1.0863	1.10	1.11	1.12
EUR/GBP	0.8539	0.86	0.86	0.87
EUR/JPY	160.75	158	155	152
GBP/USD	1.2716	1.28	1.29	1.29
USD/JPY	147.96	144	140	136

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		de Guindos (Mon); Lane (Tue); Lane (Thu)		
	BoE Speakers:				
	Fed Speakers:				
			IMF World Economic Outlook (Tuesday)		
Mon 29th	IRL:	11:00	Retail Sales (December)	+0.2% (+0.8%)	
	JPN:	23:30	Jobs/Applicants Ratio (December)	1.28	1.28
	JPN:	23:30	Unemployment Rate (December)	2.5%	2.5%
Tue 30th	FRA:	06:30	GDP (Q4: Preliminary Reading)	-0.1% (+0.6%)	+0.0% (+0.6%)
	SPA:	08:00	GDP (Q4: Preliminary Reading)	+0.3% (+1.8%)	+0.2% (+1.5%)
	SPA:	08:00	Flash HICP (January)	+0.0% (+3.3%)	-0.4% (+3.1%)
	GER:	09:00	Flash GDP (Q4: Flash Reading)	-0.1% (-0.4%)	-0.3% (-0.2%)
	ITA:	09:00	GDP (Q4: Preliminary Reading)	+0.1% (+0.1%)	+0.0% (+0.3%)
	UK:	09:30	Mortgage Approvals (December)	+50,067	
	EU-20:	10:00	GDP (Q4: Preliminary Reading)	-0.1% (+0.0%)	-0.1% (+0.0%)
	EU-20:	10:00	EC Economic Sentiment (January)	96.4	96.2
			- Industrial / Services / Consumer	-9.2 / 8.4 / -16.1	-9.0 / 8.0 / -16.1
	US:	14:00	JOLTS Job Openings (December)	+8.790m	
	US:	15:00	Conference Board Consumer Confidence (Jan)	110.7	116.0
	JPN:	23:50	Retail Sales (December)	(+5.3%)	(+4.7%)
Wed 31st	FRA:	07:45	Flash HICP Inflation (January)	+0.1% (+4.1%)	-0.2% (+3.6%)
	GER:	08:55	Unemployment Rate (January)	5.9%	5.9%
	IRL:	11:00	Unemployment Rate (January)	4.9%	
	IRL:	11:00	Flash HICP Inflation (January)	+0.4% (+3.2%)	
	US:	13:15	ADP Employment (January)	+164,000	+130,000
	GER:	13:00	Flash HICP Inflation (January)	+0.2% (+3.8%)	+0.0% (+3.4%)
	US:	13:30	Employment Cost Index (Q4)	+1.1%	+1.0%
			- Wages	+1.2%	
	US:	19:00	Fed FOMC Meeting Announcement		
			- Fed Funds Target Range	5.25-5.50%	5.25-5.50%
	US:	19:30	Fed FOMC Post-Meeting Press Conference		
Thu 1st	IRL:	01:01	AIB Manufacturing PMI (January)	48.9	
	EU-20:	09:00	Final HCOB Manufacturing PMI (January)	46.6	46.6
	UK:	09:30	Final CIPS Manufacturing PMI (January)	47.3	47.3
	EU-20:	10:00	Flash HICP Inflation (January)	(+2.9%)	-0.3% (+2.8%)
			- Ex-Food & Energy	(+3.9%)	
			- Ex-Food, Energy, Alcohol & Tobacco	(+3.4%)	-1.0% (+3.2%)
	EU-20:	10:00	Unemployment Rate (December)	6.4%	6.4%
	UK:	12:00	BoE Interest Rate Announcement		
			-Bank rate	5.25%	5.25%
	UK:	12:30	MPR Press Conference		
	US:	13:30	Initial Jobless Claims (w/e 22nd January)	+214,000	+214,000
	US:	14:45	Final S&P Manufacturing PMI (January)	50.3	50.3
	US:	15:00	Manufacturing ISM (January)	47.4	47.7
Fri 2nd	US:	13:30	Non-farm Payrolls (January)	+216,000	+178,000
			- Unemployment Rate	3.7%	3.8%
			- Average Earnings	+0.4% (+4.1%)	+0.3% (+4.1%)
	US:	15:00	Final Uni. Michigan Consumer Sentiment (Jan)	78.8	78.8

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

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