Weekly Market Brief

AIB Treasury Economic Research Unit

25th – 29th March 2024

Central Banks and Markets Aligned on Rate Cuts

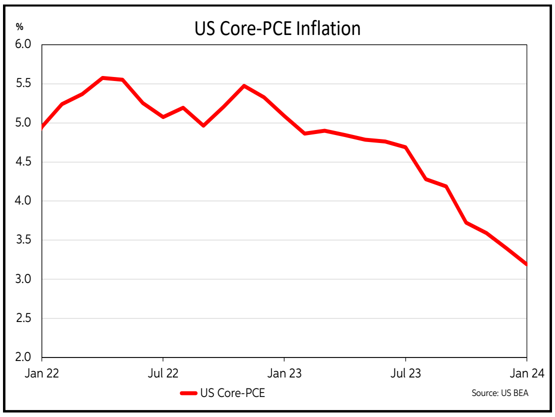
- **Following a busy week of central bank meetings and major policy changes, policymakers and markets are now more aligned on the outlook for rates in 2024.** Notably, the shift by the Bank of Japan marked a symbolic end to its negative rate and yield curve control policies. While deflationary pressures have eased for now, it remains to be seen how far the BoJ can hike rates further in the near term. Elsewhere, the rate cut and dovish forward guidance by the Swiss National Bank caught markets by surprise, and it is one of the first central banks in Europe to embark on a rate-cutting cycle**.**

- **While the Fed and Bank of England held rates as expected, the accompanying forecasts and commentary from key policymakers have helped to align futures markets with central banks.** For the Fed, the reiteration of the median 75bps of cuts in its latest dot-plot, alongside higher GDP forecasts, was welcomed by investors with a bounce in equities and the dollar weakening, although the currency subsequently regained ground. However, longer-term projections are for more modest rate cuts than projected in December 2023. Rates are seen as being cut by a further 75bps in both 2025 (one less cut than forecast in December) and 2026, with long-term rates expected to settle around 2.6% compared to a 2.5% median forecast in December. Additionally, Chair Powell signalled long term rates may continue to drift higher.

- **The Bank of England's hold and subtle changes to its monetary policy statement, at face value, suggested little shift in future policy direction.** However, the voting breakdown on the Monetary Policy Committee signalled that the doves are now in the ascendency. The vote split shifted to 8:1 in favour of no change, from 6:3 in February (6 for no change, 2 for a rate hike and one in favour of a rate cut). This is significant, as two members who had previously been in favour of raising rates are no longer of that view, suggesting that the perceived risk of inflationary pressures becoming embedded has declined.

- **In addition to this, Governor Andrew Bailey signalled his intention to begin cutting rates soon in an upbeat interview with the Financial Times.** The Governor stated that rate cuts were now "in play", a significant shift from his cautious rhetoric at his last press conference following the release of the Monetary Policy Report in early February. Moreover, his view of the economy pointed to growing optimism on the near-term outlook, stating that the UK was "effectively disinflating at full employment". Sterling weakened on the back of these comments, and investors have readjusted rate expectations accordingly, with markets now pricing in 75bps of cuts by the BoE in 2024, up from just 60bps a couple of weeks ago.

- **Although central banks are moving closer towards easing policy, they remain in data-dependent mood.** With this in mind, the February print of US PCE inflation will be in focus this week. The headline PCE deflator has declined for four consecutive months, falling to 2.4% in February, its lowest level in three years. Core-PCE has also been trending lower recently. Having been in a narrow 4.3 -4.9% range between December 2022 to July 2023, it declined in the second half of last year, before falling to 2.8% in January. However, it should be noted that the monthly increase was 0.4% in January, the highest since February 2023. The consensus is for a 0.3% rise in February, meaning core-PCE inflation would be unchanged at 2.8%. Meantime, headline PCE inflation is forecast to inch higher to 2.5%.



- **Elsewhere in the US, personal consumption and income data for February are also due.** Consumption is expected to have increased by 0.4% in nominal terms in the month, keeping pace with a 0.4% rise in incomes. Meanwhile, the Conference Board measure of consumer sentiment is projected to be unchanged at 106.7 in March. In terms of more lagging indicators, the final reading of Q4 GDP is set to confirm the economy expanded by 3.2% annualised in the quarter, for a full year growth rate of 2.5%.

- **In the Eurozone, inflation data will also receive attention, as three of the top four economies report their flash estimates of HICP for March, with France, Italy and Spain will providing updates.** The consensus is for Spanish and Italian HICP to increase to 3.2% and 1.4%, respectively. Meantime, French inflation is projected to fall to 2.8%. Elsewhere, on the data front, the EC sentiment indicators for March will feature. A modest improvement in the headline index is anticipated.

Interest Rate Forecasts

	Current	End Q2 2024	End Q3 2024	End Q4 2024
Fed Funds	5.375	5.125	4.875	4.625
ECB Deposit	4.00	3.75	3.25	3.00
BoE Repo	5.25	5.00	4.75	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 2024	End Q2 2024	End Q3 2024
EUR/USD	1.0814	1.10	1.10	1.11
EUR/GBP	0.8579	0.86	0.87	0.87
EUR/JPY	163.63	164	159	158
GBP/USD	1.2603	1.28	1.26	1.28
USD/JPY	151.28	149	145	142

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 25th - Friday 29th March

AIB Treasury Economic Research

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Date	*UK & Irish Time*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde** (Mon); Lane (Tue); Cipollone (Wed)		
	BoE Speakers:		Mann (Mon)		
	Fed Speakers:		Bostic, Cook (Mon); Waller (Wed); **Powell** (Fri)		
Mon 25th	**UK:**	11:00	CBI Distributive Trades (March)	-7.0	
	US:	14:00	New Home Sales (February)	+0.66m / +1.5%	+0.68m / +2.1%
Tue 26th	**GER:**	07:00	Gfk Consumer Sentiment (April)	-29.0	-27.8
	SPA:	08:00	GDP (Q4: Final Reading)	+0.6% (+2.0%)	+0.6% (+2.0%)
	US:	12:30	Durable Goods (February)	-6.2%	+1.3%
			- Ex-Transport	-0.4%	+0.4%
	US:	13:00	Case-Shiller House Prices (January)	+0.2% (+6.1%)	
	US:	14:00	Consumer Confidence (March)	106.7	106.7
Wed 27th	**FRA:**	07:45	INSEE Consumer Confidence (March)	89.0	90.0
	SPA:	08:00	Flash HICP (March)	+0.4% (+2.9%)	+1.1% (+3.2%)
	EU-20:	10:00	EC Economic Sentiment Indicator (March)	95.4	96.1
			- Consumer / Industrial / Services	-15.5 / -9.5 / 6.0	-14.9 / -9.0 / 7.8
Thu 28th	**GER:**	07:00	Retail Sales (February)	-0.4% (-1.4%)	+0.3% (-0.9%)
	UK:	07:00	GDP (Q4: Final Reading)	-0.3% (-0.2%)	-0.3% (-0.2%)
	GER:	08:55	Unemployment Rate (March)	5.9%	5.9%
	EU-20:	09:00	M3 Annual Money Growth (February)	+0.1%	+0.3%
	ITA:	09:00	ISTAT Business Confidence (March)	87.3	87.6
	ITA:	09:00	ISTAT Consumer Confidence (March)	97.0	97.3
	IRL:	***11:00***	***Retail Sales (February)***	***+0.5% (+2.7%)***	
	US:	12:30	GDP (Q4: Final Reading)	+3.2% s.a.a.r.	+3.2% s.a.a.r.
	US:	12:30	PCE Prices (Q4: Final Reading)	+1.8% s.a.a.r.	+1.8% s.a.a.r.
			- Core-PCE prices	+2.1% s.a.a.r.	+2.1% s.a.a.r.
	US:	12:30	Initial Jobless Claims (w/e 18th March)	+210,000	+215,000
	US:	14:00	Final Uni. Michigan Consumer Sentiment (March)	76.5	77.0
	JPN:	23:30	Tokyo CPI Inflation (March)	(+2.6%)	
			- Ex-Food & Energy	(+2.5%)	
	JPN:	23:30	Jobs/Applicants Ratio (February)	1.27	1.27%
	JPN:	23:30	Unemployment Rate (February)	2.4%	2.4%
	JPN:	23:50	Industrial Output (February)	-6.7% (-3.1%)	+1.4%
Fri 29th	***IRL/UK/Most-EU:***		***Good Friday (Bank Holiday)***		
	FRA:	07:45	Flash HICP Inflation (March)	+0.9% (+3.2%)	+0.7% (+2.8%)
	ITA:	10:00	Flash HICP Inflation (March)	+0.0% (+0.8%)	+1.4% (+1.4%)
	US:	12:30	Personal Income / Consumption (February)	+1.0% / +0.2%	+0.4% / +0.4%
	US:	12:30	PCE Price Inflation (February)	+0.3% (+2.4%)	+0.4% / (+2.5%)
			- Core-PCE Price Inflation	+0.4% (+2.8%)	+0.3% / (+2.8%)

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