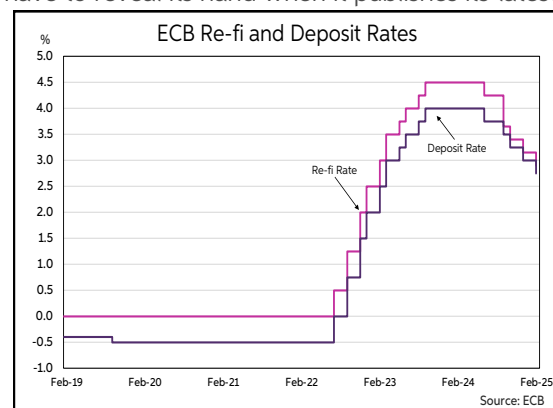


The US Connection

- **Currency markets experienced some volatility over the past week, driven once again by President Trump's comments in relation to US trade tariffs.** However, perhaps what was more striking though, was that there now appears to be tentative signs of an underlying weakening trend in US data, which has weighed on equities and underpinned a recovery in bonds of late.
- **While further promises of tariffs on the EU has negatively impacted the euro in recent days, the currency had recovered some ground against the dollar of late,** rising from \$1.02 at the beginning of February to a peak of above \$1.05, before retrenching back to \$1.04, as tariff concerns took hold once more. Eurozone data have been trending slightly stronger, but dollar weakness had been the key driver of the euro rally, as investors digested a series of weak US data points on the economy.
- **This week's Conference Board measure of US consumer confidence was the latest such data point, with the monthly decline in the index the largest since August 2021 as some respondents cited trade and tariffs as factors for the fall in confidence in February.** Alongside the earlier Michigan consumer survey and weak PMIs for February, the recent US data have tipped the much-watched Citibank 'economic surprise' index into negative territory for the first time since September 2024 amid the Fed's first bumper 50bp rate cut. With recession risks emerging as a theme for investors once more, all eyes will now be on the hard data from industry sectors and the labour market for signs that the sentiment downturn might be translating into weaker output growth. Current consensus polls suggest US GDP growth will slow to about 2.2% from 2.8% in 2024, with no sign as yet of a further mark-down in near term forecasts.
- **While bond and swap markets are reflecting potentially weaker US growth and more rapid cuts by the Fed, there also remains a stagflationary risk, particularly if President Trump follows through on the promised tariffs.** This risk has also been reflected in the recent consumer surveys, with inflation expectations rising rapidly, suggesting the early actions of the administration are feeding through quickly to household sentiment. This could, in turn, place the Fed in a difficult position if the market moves too far ahead of its current position on rate cuts, while inflation expectations diverge from trend. Recent comments by Chair Powell suggest policymakers are happy to sit on their hands for now, but the Fed will have to reveal its hand when it publishes its latest interest rate dot-plot projections post the next FOMC meeting on March 19th.
- **However, this week, the monetary policy spotlight will very much be centred on the ECB.** Having cut rates by 125bps already this cycle, including at its last four successive meetings - the Governing Council is widely expected to deliver another 25bps of policy easing this Thursday. That would reduce the deposit and the re-fi rates to 2.50% and 2.65%, respectively. Aside from the policy decision, the ECB meeting statement and remarks from President Lagarde at the press conference will warrant attention. Investors will be paying close interest to see if the ECB drops the reference to policy being in restrictive territory, given the recent debate around estimates of the neutral rate in the Eurozone. At the same time, the updated staff projections will be closely monitored as market participants gauge the ECB's assessment of the economic outlook for hints regarding the future path of policy.
- **Ahead of the ECB meeting, the flash reading of HICP inflation for February will be released.** In recent months, little progress has been made on the inflation front. The headline rate fell to 1.7% in September, its lowest level since April 2021, before re-accelerating throughout Q4 and printing at 2.5% in January. Meantime core inflation is proving to be quite sticky. The ex-food and energy rate has been stuck between 2.6-2.8% since April, and it came in at 2.7% throughout Q4 and January. Services HICP remains particularly elevated, and it stood at 3.9% in January. However, the consensus is for both the headline and core rates to edge lower to 2.3% and 2.6% in February. Elsewhere in the Eurozone, retail sales, the unemployment rate and producer price inflation (all January) will feature.
- **In the US, the main data highlight will be the US labour market report for February.** In January, payrolls expanded by 143k, well down on the November and December increases of 261k and 307K, but near to the 2024 average of 163k per month. In February, the consensus is for payrolls to rise by 160k. Meantime, the unemployment rate remained low at, 4.0% in January, while average earnings growth was at 4.1% y/y, indicating that while the pace of jobs creation slowed, conditions in the labour market are still tight. Both are expected to be unchanged this month. Meanwhile, the manufacturing and non-manufacturing ISMs are both forecast to be little changed in February. The March 4th deadline for implementing 25% tariffs on goods from Canada and Mexico entering the US, and newsflow in relation to the issue is also likely to impact markets throughout the week. A speech by US President Trump to a joint session of Congress will also garner significant attention.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
Fed Funds	4.375	4.375	4.375	4.125
ECB Deposit	2.75	2.50	2.25	2.00
BoE Repo	4.50	4.50	4.25	4.00
BoJ OCR	0.50	0.50	0.75	0.75

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	1.0406	1.03	1.04	1.05
EUR/GBP	0.8263	0.83	0.83	0.84
EUR/JPY	156.57	155	157	157
GBP/USD	1.2588	1.25	1.26	1.26
USD/JPY	150.42	150	150	149

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde (Fri)		
	BoE Speakers:		Bailey , Pill, Greene, Taylor (wed); Mann (Fri)		
	Fed Speakers:		Musalem (Mon); Williams (Tue); Powell , Bostic, Bowman, Kugler, Williams (Fri)		
			US President Trump addresses a joint session of Congress (Tue)		
Mon 3rd	IRL:	01:01	AIB Irish Manufacturing PMI (February)	51.3	
	EU-20:	09:00	Final HCOB Manufacturing PMI (February)	47.3	47.3
	UK:	09:30	Mortgage Approvals (January)	66,526	65,650
	UK:	09:30	Final S&P Manufacturing PMI (February)	46.4	46.4
	EU-20:	10:00	Flash HICP Inflation (February)	(+2.5%)	(+2.3%)
			- Ex-Food & Energy	(+2.7%)	(+2.6%)
			- Ex-Food, Energy, Alcohol & Tobacco	(+2.7%)	(+2.5%)
	US:	14:00	Manufacturing ISM (February)	50.9	50.6
	US:	14:45	Final S&P manufacturing PMI (February)		
	JPN:	23:30	Jobs/Applicants Ratio (January)	1.25	1.25
	JPN:	23:30	Unemployment rate (January)	2.4%	2.4%
Tue 4th	ITA:	09:00	Unemployment rate (January)	6.2%	
	EU-20:	10:00	Unemployment rate (January)	6.3%	6.3%
Wed 5th	EU-20:	09:00	Final HCOB Composite PMI (February)	50.2	50.2
			- Final HCOB Services PMI	50.7	50.7
	ITA:	09:00	GDP (Q4: Final Reading)	+0.0% (+0.5%)	+0.0% (+0.5%)
	UK:	09:30	Final S&P Composite PMI (February)	50.5	50.5
	EU-20:	10:00	Producer Prices (January)	+0.4% (+0.0%)	
	IRL:	11:00	Unemployment Rate (February)	4.0%	4.1%
	US:	13:15	ADP national Employment (February)	+183,000	+140,000
	US:	14:45	Final S&P Composite PMI (February)	50.4	50.4
			- Final S&P Services PMI	49.7	49.7
	US:	15:00	Non-Manufacturing ISM (February)	52.8	52.9
	IRE:	16:30	Exchequer Returns (February)	Feb'24: -€0.1bn	+€1.0bn
Thu 6th	EU-20:	10:00	Retail Sales (January)	-0.2% (+1.9%)	+0.1% (+1.9%)
	EU-20:	13:15	ECB Monetary Policy Announcement		
			- Deposit Rate	2.75%	2.50%
			- Re-fi Rate	2.90%	2.65%
	EU-20:	13:45	ECB Post-Meeting Press Conference		
	US:	13:30	International Trade (January)	-\$98.4bn	
Fri 7th	US:	13:30	Initial Jobless Claims (w/e 24th February)	+242,000	+235,000
	GER:	07:00	Industrial Orders (January)	+6.9%	-3.0%
	EU-20:	10:00	Employment (Q4: Final Reading)	+0.1% (+0.6%)	+0.1% (+0.6%)
	EU-20:	10:00	GDP (Q4: Revised Reading)	+0.1% (+0.9%)	+0.1% (+0.9%)
	US:	13:30	Non-Farm Payrolls (February)	+143,000	+160,000
			- Unemployment Rate	4.0%	4.0%
			- Average Earnings	+0.5% (+4.1%)	+0.3% (+4.1%)

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

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