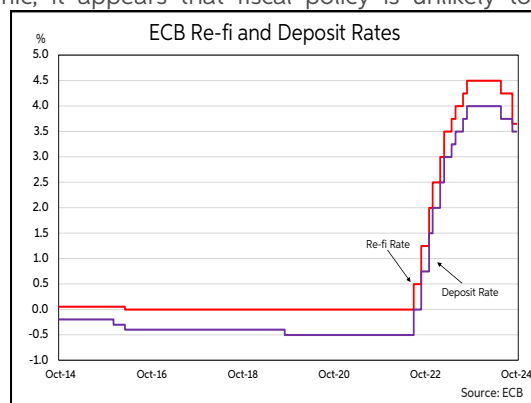


Budget dilemmas in the UK and France

- **While much speculation surrounds the contents of UK Chancellor Reeve's first Budget on October 30th**, the budget presented by the new French Government highlights the fiscal constraints facing some of Europe's largest economies. **Prime Minister Barnier's draft 2025 budget includes significant cuts worth over €60bn or 2% of GDP, weighted two-thirds towards spending cuts and one-third in tax increases.** The measures include tax hikes on corporates and high earners, alongside reductions in departmental and welfare spending. However, total spending is still expected to rise next year, highlighting the fiscal challenge facing the new Government. France's budget deficit, expected at 6% of GDP by end-2024, is among the largest in the Eurozone, with the measures announced aiming to trim this to 5% by end-2025, supported by modest growth in GDP. The Government plans to cut this further to the EU-mandated target of 3% of GDP by 2029.
- **With the budget set to be scrutinised by the French Parliament in the coming weeks, the minority Government faces a political tightrope to pass the measures.** France's creeping borrowing costs may focus the minds of politicians, with the yield on the benchmark 10-year moving above 3% in recent days and the spread to the German bund remaining close to the peak level reached in the aftermath of the surprise summer election.
- **Elsewhere, UK media reports suggest the Chancellor is contemplating several tax increases, with a hike in capital gains tax chief among the changes being considered.** The Chancellor has pledged to boost infrastructure spending to kick-start supply-side reforms, but she may also need to find current expenditure savings elsewhere to fund it, alongside tax hikes. She is also likely to loosen her fiscal rules inherited from the last Government to enable the infrastructure boost. This is expected to include a change in the national debt rule which either excludes Bank of England liabilities or takes account of Government assets. Either way the Chancellor will need to demonstrate fiscal prudence by planning to close the current budget deficit (excluding capital spending) and have her new debt metric declining by the end of the current Parliament in 2028/2029. Thus, despite only modest growth for both the UK and French economies since the COVID-19 pandemic, it appears that fiscal policy is unlikely to meaningfully support activity in the near-term.
- **Turning to the week ahead, the spotlight will be on the ECB Governing Council meeting.** So far, the ECB has cut twice in this easing cycle, in June and its most recent meeting in September. These moves coincided with the release of its updated macro-forecasts, which the ECB argues are an important input in its decision-making process. Since the last meeting there have been limited data releases for the Governing Council to assess. The PMI data for September were weaker than anticipated. Meanwhile, headline inflation has fallen sharply to 1.8%, but this decline was widely expected and telegraphed by President Lagarde beforehand, who emphasised the ECB is not "data-point dependent". Furthermore, the account of the September meeting illustrates the ECB's preference for a gradual approach to rate cuts. However, remarks from a number of ECB policymakers in the past fortnight have opened the door to a rate cut this week. Against this backdrop, market rate expectations have softened significantly, with futures contracts now pricing in consecutive 25bps rate cuts at this week's meeting, and in December. **However, the decision maybe a much closer call than current pricing suggests.** Aside from the policy decision, the post-meeting press conference with President Lagarde will warrant close attention for insight on the rate outlook.
- **Data-wise, Eurozone industrial production for August is due.** Output has contracted in three of the last four months, from already subdued levels. However, a 1.4% rebound is pencilled in for August. **In the US, industrial production figures will also be released.** A 0.1% decrease in production is projected in September, leaving output 0.3% lower in year-on-year terms. Elsewhere in the US, retail sales data for September are due. Both headline retail sales and the all important control group measure are expected to expand by 0.3% in the month. Meantime, a slew of US housing market metrics will feature, including housing starts (September), and homebuilder sentiment (October).
- **In the UK, a busy data calendar includes updates on inflation and the labour market.** In terms of the labour market, there have been some signs that conditions have tightened once again in recent months. The unemployment rate has declined to 4.1% in July from 4.4% in May. At the same time, average earnings growth remains elevated at +4.0% y/y in the three months to July. The consensus is for the unemployment rate to stay at 4.1%, while average earnings growth is forecast to slow to +3.8% y/y. Meantime, inflation has been in decline this year. Headline CPI fell to 2% in May and June, before rising slightly to 2.2% in July and August. Meanwhile, core-CPI is still quite sticky, rising to 3.6% in August, amid elevated services inflation which is running at 5.6%. The headline and core rates are projected to ease to 1.9% and 3.4%, respectively in September.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2024	2025	2025
Fed Funds	4.875	4.375	3.875	3.375
ECB Deposit	3.50	3.25	3.00	2.75
BoE Repo	5.00	4.50	4.00	3.50
BoJ OCR	0.25	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2024	2025	2025
EUR/USD	1.0941	1.12	1.13	1.14
EUR/GBP	0.8370	0.84	0.84	0.85
EUR/JPY	163.32	160	160	162
GBP/USD	1.3071	1.33	1.35	1.34
USD/JPY	149.26	143	142	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:				
	BoE Speakers:				
	Fed Speakers:		Waller, Kashkari (Mon); Daly, Kugler (Tue); Goolsbee (Thu); Kashkari, Waller (Fri)		
Mon 14th	US:		Colombus Day (Bond Market Holiday)		
Tue 15th	UK:	07:00	ILO Unemployment Rate (August)	4.1%	4.1%
	UK:	07:00	Employment Change (August)	+265,000	+250,000
	UK:	07:00	Claimant Count (August)	+23,700	
	UK:	07:00	Average Earnings (August)	(+4.0%)	(+3.8%)
			- Ex-Bonus	(+5.1%)	(+4.9%)
	SPA:	08:00	Final HICP Inflation (September)	-0.1% (+1.7%)	-0.1% (+1.7%)
	FRA:	08:45	Final HICP Inflation (September)	+1.2% (+1.5%)	+1.2% (+1.5%)
	EU-20:	10:00	Industrial Production (August)	-0.3% (-2.2%)	+1.4% (-1.2%)
	GER:	10:05	ZEW Economic Sentiment (October)	3.6	10.0
	US:	13:30	NY Fed / Empire State Index (October)	11.50	4.00
Wed 16th	JPN:	00:50	Machinery Orders (August)	-0.1% (+8.7%)	-0.1% (+3.6%)
	GER:	07:00	Retail Sales (July)	-1.2% (-1.7%)	
	UK:	07:00	CPI Inflation (September)	+0.3% (+2.2%)	+0.2% (+1.9%)
			- Core-CPI	+0.4% (+3.6%)	+0.3% (+3.4%)
			- Services CPI	+0.4% (+5.6%)	(+5.3%)
	UK:	07:00	PPI Output Price Inflation (September)	-0.3% (+0.2%)	-0.3% (-0.6%)
			- PPI Input Price Inflation	-0.5% (-1.2%)	
	ITA:	09:00	CPI Inflation (September)	+1.2% (+0.8%)	+1.2% (+0.8%)
	IRL:	11:00	Residential Property Price Index (August)	+1.2% (+9.6%)	+0.8% (+10.0%)
Thu 17th	JPN:	00:50	Trade Balance (September)	-¥695.3bn	-¥237.6bn
			- Exports	(+5.6%)	(+0.5%)
	EU-20:	10:00	Total Trade Balance (August)	+€15.5bn	
	EU-20:	10:00	Final HICP Inflation (September)	+0.1% (+1.8%)	+0.1% (+1.8%)
			- Ex-Food & Energy	+0.3% (+2.7%)	+0.3% (+2.7%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.1% (+2.7%)	+0.1% (+2.7%)
	EU-20:	13:15	ECB Interest Rate Policy Announcement		
			- Deposit rate	3.50%	3.25%
			- Re-fi Rate	3.65%	3.40%
	US:	13:30	Initial Jobless Claims (w/e 7th October)	+258,000	+253,000
	US:	13:30	Retail Sales (September)	+0.1% (+2.1%)	+0.3% (+1.7%)
			- Ex-Autos	+0.1%	+0.1%
			- Control Group	+0.3%	+0.3%
	EU-20:	13:45	ECB Post-Meeting Press Conference		
	US:	14:15	Industrial Production (September)	+0.8% (+0.0%)	-0.1% (-0.3%)
			- Manufacturing Output	+0.9%	
			- Capacity Utilisation	78.0%	77.8%
	US:	15:00	NAHB Homebuilder Sentiment (October)	41.0	43.0
Fri 18th	JPN:	00:30	CPI Inflation (September)	+0.5% (+3.0%)	(+2.5%)
			- Ex-Food & Energy	+0.4% (+2.8%)	(+2.3%)
	UK:	07:00	Retail Sales (September)	+1.0% (+2.5%)	-0.3% (+3.2%)
			- Ex-Fuel	+1.1% (+2.3%)	-0.2% (+3.3%)
	US:	13:30	Housing Starts (September)	+1.36m / +9.6%	+1.35m / -0.4%
			- Building Permits	+1.47m / +4.6%	+1.46m / -0.7%

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

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