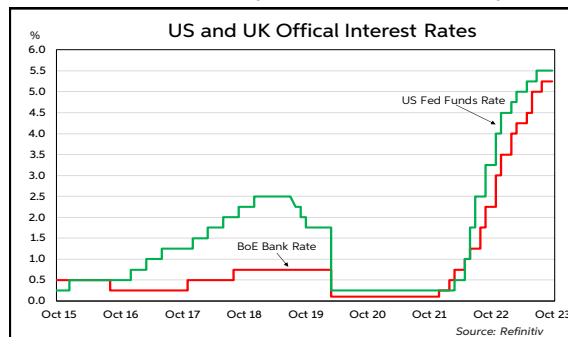


Markets Look for ECB to Reverse Course in 2024

- **The Eurozone economy stagnated between autumn 2022 and mid-2023, with flat domestic spending and a decline in exports offset by higher inventories.** The data since mid-year, though, suggest the economy could now be entering recession. Retail sales fell sharply by 1.3% in August after a fall of 0.1% in July. Industrial production expanded by 0.6% in August, but this followed a contraction of 1.1% in July. Annually, industrial output was 5.1% lower in August. Monetary aggregates also continue to weaken, with M3 money supply falling by 1.2% and credit growth to households slowing to 0.8% y/y in September.
- **Survey data also suggest the Eurozone economy has weakened further since mid-year.** The services PMI readings came in below 50 in August and September, thus moving into contraction territory. The manufacturing PMI, which was already struggling, averaged a very weak 43.2 in Q3. Meanwhile, the EC economic sentiment index, which has been trending lower since the start of the year, fell to 93.3 in September, its lowest level since November 2020. The latest ECB bank lending survey also showed that credit conditions tightened further and loan demand fell sharply in the third quarter, as higher rates weighed on activity. The limited amount of survey data available for October suggest the economy continues to weaken. The Eurozone PMIs fell further in October, while consumer confidence deteriorated for the third month running, from already low levels.
- **Overall, the Eurozone economy has been coming under pressure over the past number of quarters in the face of high inflation and rising interest rates, as well as weaker global growth and increased geo-political uncertainty.** The German economy, the largest in the Eurozone, has been particularly weak. The IMF is forecasting Eurozone GDP growth of 0.9% in 2023, and 1.5% in 2024. The ECB is projecting the economy will expand by 0.7% this year and by 1.0% in 2024. However, given the recent weak trends in the data, the risks are tilted to the downside of these projections. Indeed, as already noted, the economy may well enter recession in the second half of this year, with growth likely to be much lower than forecast in 2024.
- **Against the backdrop of rising recession risks and with inflation in sharp decline, futures contracts indicate that the market is of the view that ECB rates have peaked, and will start to be lowered from around mid-2024.** They see the first 25bps cut in June, with two more in the second half of 2024, and another 25bps cut in 2025, taking rates down to 3%. Market expectations for significant rate cuts next year seem to be out of tune with the ECB's firm focus on maintaining a restrictive policy for as long as necessary to bring inflation down to target. In this regard, the ECB's macro forecasts do not envisage a recession that would accelerate the fall in inflation back to 2%. ECB policy will remain very much on hold in the near-term and it is most unlikely to signal anytime soon that policy easing could be on the agenda next year. Indeed, President Lagarde has stated that any talk of rate cuts is totally premature. However, if the economy is indeed hit by recession, then rate cuts next year would seem likely.
- **This week, the monetary policy spotlight shifts to the US Federal Reserve and the Bank of England.** In the US, **the Fed is widely anticipated to leave interest rates unchanged.** US inflation has been falling in the past number of months, with both core-CPI and core-PCE edging down. However, economic activity remains strong and labour market conditions are tight, meaning that the Fed will have to stay highly vigilante to any signs of stickiness in inflation. Against this backdrop, at the press conference, Chair Powell will likely re-emphasis that interest rates may not have peaked, and that rates will have to stay at elevated levels for an extended period of time to make sure that inflation returns to 2% in a timely manner. Market pricing currently suggests there is around a 30% chance the Fed will hike rates by 25bps this winter.



- **Similarly, the BoE is also expected to keep interest rate policy on hold this week.** In a close 5-4 vote in September, the MPC opted to leave Bank rate at 5.25%. The decision this time may still be a split vote, but market pricing indicates traders believe there is less than a 10% chance the BoE will raise rates. Investors will be paying close attention to the updated BoE economic forecasts in the Monetary Policy Report, and to remarks from MPC officials at the post-meeting press conference.
- **Meantime, a busy data calendar in the US includes the October labour market report.** In September, payrolls surprised markets, rising by 336k, almost double the 170k consensus, suggesting the labour market remains strong. A healthy 172k increase is pencilled in for October, while the unemployment rate is forecast to stay at 3.8%. Average earnings growth, which has been edging lower recently, is projected to slow to 4.1% y/y from 4.2%/y. However, the quarterly **Employment Cost Index** is expected to rise by 1% in Q3, the same rate as in Q2. Elsewhere, the manufacturing and non-manufacturing ISMs are forecast to be little changed in October, with the former in contraction mode and the latter above the key 50 level. **In the Eurozone, the focus will be on the flash reading of HICP inflation for October.** The consensus is for the headline rate to fall sharply from 4.3% to 3.4%, and the core rate to decline from 4.5% to 4.2%. The Eurozone unemployment rate is set to remain at an all-time low of 6.4% in September. **Meanwhile, Eurozone GDP is forecast to contract by 0.1% in Q3.**

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
Fed Funds	5.375	5.625	5.625	5.625
ECB Deposit	4.00	4.00	4.00	4.00
BoE Repo	5.25	5.50	5.50	5.50
BoJ OCR	-0.10	-0.10	-0.10	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2023	2024	2024
EUR/USD	1.0567	1.05	1.06	1.08
EUR/GBP	0.8713	0.87	0.87	0.87
EUR/JPY	158.21	155	153	151
GBP/USD	1.2127	1.21	1.22	1.24
USD/JPY	149.71	148	144	140

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday October 30th - Friday November 3rd

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		de Guindos, (Mon); de Guindos (Tue); Lane, Schnabel (Thur)		
	BoE Speakers:				
	Fed Speakers:		Barr (Fri)		
Mon 30th	IRL:		October Bank Holiday		
	SPA:	08:00	Flash HICP (October)	+0.6% (+3.3%)	
	EU-20:	10:00	EC Economic Sentiment (October)	93.3	93.3
			- Consumer / Industrial / Services	- 17.8 / -9.0 / 4.0	-17.9 / -10.0 / 3.0
	GER:	13:00	Flash HICP Inflation (October)	+0.2% (+4.3%)	+0.3% (+3.6%)
Tue 31st	FRA:	06:30	GDP (Q3: Preliminary Reading)	+0.0% (+1.0%)	
	FRA:	07:45	Flash HICP Inflation (October)	-0.6% (+5.7%)	
	GER:	07:00	GDP (Q3: Flash Reading)	+0.0% (-0.6%)	-0.3% (-0.7%)
	EU-20:	10:00	Flash HICP Inflation (October)	+0.3% (+4.3%)	+0.6% (+3.4%)
			- Ex-Food & Energy	+0.2% (+5.5%)	+0.3% (+5.1%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.2% (+4.5%)	+0.2% (+4.2%)
	EU-20:	10:00	GDP (Q3: Flash Reading)	+0.1% (+0.5%)	-0.1% (+0.2%)
	US:	12:30	Employment Cost Index (Q3)	+1.0%	+1.0%
			- Wages	+1.0%	
	US:	14:00	Conference Board Consumer Confidence (Oct)	103.0	100.0
Wed 1st	IRL:	01:01	AIB Manufacturing PMI (October)	49.6	
	JPN:	03:00	BoJ Interest Rate Decision	-0.10%	-0.10%
	UK:	09:30	Final CIPS / S&P Manufacturing PMI (October)	45.2	45.2
	US:	12:15	ADP Employment Rate (October)	+89,000	
	US:	13:45	Final S&P Manufacturing PMI (October)	50.0	50.0
	US:	14:00	Manufacturing ISM (October)	49.0	49.0
	US:	14:00	JOLTS Job Openings (September)	+9.61m	
	US:	18:00	Fed Interest Rate Announcement		
			- Fed Funds Target Range	5.25-5.50%	5.25-5.50%
	US:	18:30	Fed FOMC Press Conference		
Thu 2nd	GER:	08:55	Unemployment Rate (October)	5.7%	5.8%
	EU-20:	09:00	Final HCOB Manufacturing PMI (October)	40.7	40.7
	IRL:	11:00	Unemployment Rate (October)	4.2%	4.2%
	UK:	12:00	BoE Interest Rate Announcement		
			- Bank Rate	5.25%	5.25%
	UK:	12:30	BoE MPR Press Conference		
	US:	12:30	Initial Jobless Claims (w/e 23rd October)	+210,000	
	IRL:	16:30	Exchequer Returns (October)	Oct'22: +€7.3bn	+€0.3bn
Fri 3rd	IRL:	01:01	AIB Services PMI (October)	54.5	
	UK:	09:30	Final S&P / CIPS Composite PMI (October)	49.2	49.2
			- Final S&P / CIPS Services PMI	48.6	48.6
	EU-20:	10:00	Unemployment Rate (September)	6.4%	6.4%
	US:	12:30	Non-Farm Payrolls (October)	+336,000	+172,000
			- Unemployment Rate	3.8%	3.8%
			- Average Earnings	+0.2% (+4.2%)	+0.3% (+4.1%)
	US:	13:45	Final S&P Composite PMI (October)	51.0	51.0
			- Final S&P Services PMI	50.9	50.9
	US:	14:00	Non-Manufacturing ISM (October)	53.6	53.0

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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.

AIB
Treasury
Economic
Research

Oliver
Mangan
Chief
Economist

John Fahey
Senior
Economist

Daniel
Noonan
Economist