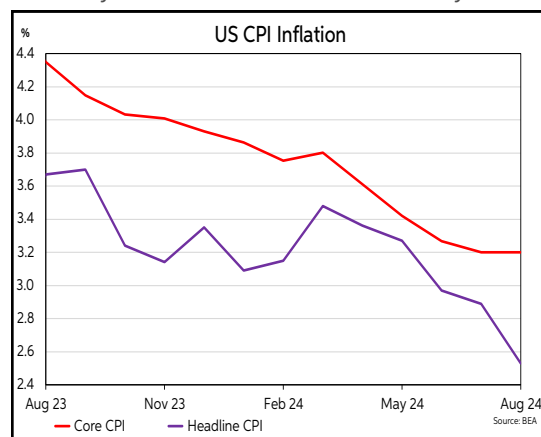


Bank of England's muddled messaging

- **Following relatively cautious guidance just two weeks ago, Bank of England (BoE) Governor Bailey's press comments this week have weighed on sterling, and drove a softening in near-term UK rate expectations.** In an interview with the Guardian, Bailey stated that the Bank could be "a bit more aggressive" in cutting interest rates provided the news on inflation continued to be good. This represents something of a volte-face from his remarks following the MPC meeting on September 19th. To add to the uncertainty, a day after Bailey's comments, BoE Chief Economist Pill struck a cautious tone in a speech stating it was "important to guard against the risk of cutting rates either too far or too fast".
- **In our Weekly Brief (23-27th Sept), following the Fed and BoE September meetings, we noted that the sharp Fed pivot of a 50bps cut raised questions for the other major central banks.** In particular, UK rates have usually moved in lock-step with US rates in prior cycles. While the BoE cut by 25bps in August, it chose to hold in September, accompanied by a cautious press statement from the Governor, stating "it's vital that inflation stays low, so we need to be careful not to cut too fast or by too much". This statement chimed with recent inflation and wage data in the UK which still point to elevated price pressures.
- **However, we also stated a more conservative approach may put the BoE at odds with the Fed if it continues with its easing cycle at an accelerated pace in the coming months.** It appears Bailey has now duly delivered the pivot, perhaps guiding the market towards a more aggressive cycle of cuts in line with those priced in for the Fed and ECB. A faster pace of rate cuts from the BoE may well hurt sterling, given the latest FX positioning data show the market is stretched long the pound.
- **The comments by the Governor adds to the instances of muddled messaging by the BoE in recent years, and begs the question as to what has shifted his outlook in such short order.** In the intervening two weeks between his press comments, the largely minor macro-economic data releases have printed a touch below expectations, but remain consistent with growth. Furthermore, key GDP, labour force and inflation data are due for release in the coming fortnight. On the fiscal side, the Governor may also now be party to, and factoring in a potentially more contractionary Budget than expected on October 30th by the new Labour Government. Either way, the comments from Bailey and Pill add further uncertainty to the near term outlook for UK rates.
- **Turning to the week ahead, the main release of note will be the September reading of US CPI inflation.** In recent months headline inflation has fallen sharply, printing below 3% in July before falling to 2.5% in August. The August reading was the lowest headline rate since February 2021. Meantime, core-CPI inflation has continued to slowly dissipate throughout this year, edging lower in 18 of the last 23 months, and declining to 3.2% in July and August. The consensus is for both rates to inch lower in September to 2.3% and 3.1%, respectively. Amid the recent bout of disinflation, the preliminary reading of the University of Michigan measure of consumer sentiment is forecast to be little changed in October having trended upwards in Q3. On the monetary policy front, the Fed FOMC meeting minutes from September will garner attention.
- **Likewise, in the Eurozone, the ECB Governing Council meeting account will be of interest to investors.** The ECB cut rates by 25bps for a second time in September, but appeared to suggest that it was unlikely to ease again when it meets later this month. However, since then market rate expectations have softened considerably, with investors fully pricing in a rate cut for October. Thus, the minutes will be in the spotlight as market participants look for any guidance on the near-term path of interest rates. Elsewhere in the Eurozone, retail sales are projected to edge 0.2% higher in August, having broadly stagnated so far in 2024. In terms of more timely data, the EU sentix index is forecast to deteriorate slightly in October, for a fourth consecutive month. Meanwhile, German industrial production data will be in focus. Output is expected to rebound by 0.8% in August after contracting sharply by 2.4% in July, although new orders are projected to decline by -2.0% in the month.
- **In the UK, the data highlight will be the monthly reading of GDP for August.** So far this year the UK economy has performed better than expected, with GDP rising by 0.7% in Q1 and by a revised 0.5% in Q2. However, GDP growth flat-lined in July, and as mentioned above, UK data have started to print slightly below expectations in recent weeks. A 0.2% increase in GDP is pencilled in for August. Similarly, UK industrial production is forecast to bounce-back and expand by 0.2% in August, having contracted by 0.8% in July.



| | 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 | 1.0977 | 1.12 | 1.13 | 1.14 |
| EUR/GBP | 0.8369 | 0.84 | 0.84 | 0.85 |
| EUR/JPY | 162.90 | 160 | 160 | 162 |
| GBP/USD | 1.3115 | 1.33 | 1.35 | 1.34 |
| USD/JPY | 148.40 | 143 | 142 | 142 |

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 7th - Friday 11th October

| Date | UK & Irish Time | Release | Previous | Forecast |
|-------------------|----------------------|---|-----------------------------|----------------------|
| This Week: | ECB Speakers: | Lane; Cipollone (Mon) | | |
| | BoE Speakers: | | | |
| | Fed Speakers: | Kashkari, Bostic, Musalem (Mon); Kugler, Bostic, Collins (Tue); Bostic, Logan, Goolsbee, Collins, Daly (Wed); Williams, Barkin (Thu); Goolsbee, Logan (Fri) | | |
| Mon 7th | GER: | 07:00 Industrial Orders (August) | +2.9% (+4.5%) | -2.0% (-1.0%) |
| | EU-20: | 09:30 EU Sentix Index (October) | -15.4 | -15.9 |
| | EU-20: | 10:00 Retail Sales (August) | +0.1% (-0.1%) | +0.2% (+1.0%) |
| Tue 8th | GER: | 07:00 Industrial Output (August) | -2.4% (-5.3%) | +0.8% (-3.9%) |
| | FRA: | 07:45 Trade Balance (August) | -€5.884bn | |
| | | - Exports | €49.798bn | |
| | US: | 11:00 NFIB Small Business Optimism (September) | 91.2 | |
| | US: | 13:30 International Trade (August) | -\$78.8bn | |
| Wed 9th | GER: | 07:00 Trade Balance (August) | +€16.8bn | +€18.5bn |
| | | - Exports | (+1.7%) | (-1.0%) |
| | US: | 19:00 FOMC Meeting Minutes (18-19th September) | | |
| Thu 10th | UK: | 00:01 RICS Housing Survey (September) | 1.0 | |
| | ITA: | 09:00 Industrial Output (August) | -0.9% (-3.3%) | +0.2% (-3.0%) |
| | EU-20: | 11:00 ECB Monetary Policy Account (11-12th Sept) | | |
| | IRE: | 11:00 CPI Inflation (September) | +0.1% (+1.7%) | -0.7% (+0.8%) |
| | | - HICP Inflation (September) | Flash: -0.8% (+0.2%) | -0.8% (+0.2%) |
| | US: | 13:30 CPI Inflation (September) | +0.2% (+2.5%) | +0.1% (+2.3%) |
| | | - Core-CPI | +0.3% (+3.2%) | +0.2% (+3.1%) |
| | US: | 13:30 Initial Jobless Claims (w/e 30th September) | +225,000 | |
| Fri 11th | GER: | 07:00 Final HICP Inflation (September) | -0.1% (+1.8%) | -0.1% (+1.8%) |
| | UK: | 07:00 GDP (August) | +0.0% (+1.2%) | +0.2% (+1.4%) |
| | | - 3m/3m | +0.5% | +0.3% |
| | UK: | 07:00 Industrial Output (August) | -0.8% (-1.2%) | +0.2% (-0.5%) |
| | | - Manufacturing Output | -1.0% (-1.3%) | +0.2% (-0.4%) |
| | UK: | 07:00 Goods Trade Balance (August) | -£20bn | -£19.2bn |
| | | - Non-EU Balance | -£7.5bn | |
| | US: | 13:30 PPI Final demand (September) | +0.2% (+1.7%) | +0.1% |
| | | - Ex-Food & Energy | +0.2% (+2.4%) | +0.2% |
| | US: | 15:00 Preli. Uni. Michigan Consumer Sentiment (Oct) | 70.1 | 70.0 |

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

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