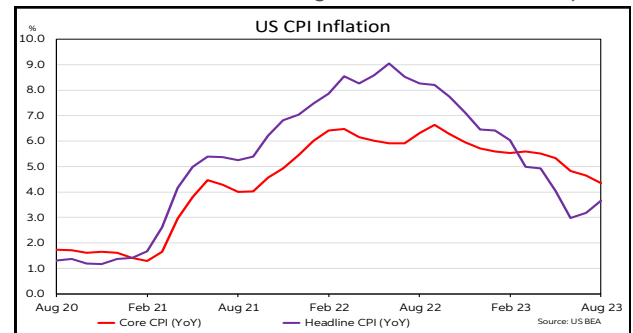


## The Road to Damascus

- **The 'higher for longer' outlook for interest rates has been the key factor behind major movements in financial markets in recent weeks.** Both bond and equity markets have come under considerable downward pressure in volatile trading. With the markets preoccupied about interest rates, it would seem that little attention is being paid to recent economic releases that impact the prospects for interest rates, in particular inflation data. The latest figures show that core inflation is now on a downward path virtually everywhere, with headline inflation rates well below last year's peak levels. In the case of Ireland, September was the third month in a row that saw very weak readings for the core HICP index, which excludes energy and unprocessed food. As a result, the annual core rate fell to 4.5%, which compares to levels of 5.7% in June and a peak of 6.2% in March.
- **In the US, the Fed's preferred inflation measure is the core PCE price index.** The annual rate had been stuck in a narrow 4.7-4.9% range between December and May, before falling over the summer. It declined to 3.9% in August, its lowest level since May 2021. Meantime, the headline PCE rate stood at 3.5% in August, down from a peak of over 7% hit in mid-2022. In the UK, core inflation is at last starting to move down, with the annual rate declining to 6.2% in August from 6.8% in July. Meanwhile, the Eurozone saw very sharp falls in both the headline and core HICP inflation rates in September. The headline rate fell from 5.2% to 4.3% and is now well below its peak of 10.6% reached in October last year. The core CPI rate, which had been stuck in a 5.3-5.7% range since January, fell to 4.5% in September.
- **There have been concerns that the sharp rise in oil prices over the summer will see renewed upward pressure on inflation.** Brent oil climbed from \$75 a barrel at mid-year to \$96 by the end of September. It has fallen back sharply, though, in the past week to \$85, close to its level in the first half of the year. Indeed, energy inflation will benefit from favourable base effects over the next couple of months in many countries, including Ireland and the UK, as sharp rises in utility bills last autumn drop out of annual rates. Furthermore, lower wholesale energy prices are starting to feed through into reductions in retail electricity and gas prices.
- **Meanwhile, food price inflation is on a clear downward path.** The FAO Food Commodity Price index fell again in August and is now 24% below its peak in March 2022. Core inflationary pressures are also now starting to ease and annual rates should be significantly lower by mid-2024. In this regard, recent PMI data point to some moderation in services sector inflation, which has been proving quite sticky. The spike in oil prices over the summer, though, is a clear warning of potential upside risks to inflation from energy prices. Labour markets also remain tight which is putting upward pressures on wages. There is also still a long way to go to get inflation back down to the 2% target level, but at least price indicators are moving in the right direction.
- **Inflation data will be a key highlight this week with US CPI readings for September due.** Until recently, headline CPI had been on a clear downward path, falling from a peak of 9.1% in June 2022, to a low of 3% in June of this year. However, it rose to 3.2% and to 3.7%, respectively, in July and August, boosted in part by a jump in fuel prices. Crucially though, core-CPI has continued to trend lower, indicating that underlying price pressures remain on a clear disinflationary path. Indeed, having been stuck in a tight 5-5.7% range throughout the early part of this year, core-CPI fell to 4.7% in July, and to 4.3% in August. The consensus is for the headline rate to edged slightly lower to 3.6% in September, with the core rate declining to 4.1%. Meanwhile, producer price inflation, which stood at 1.6% in August, down substantially from a peak of 11.7% in March 2022, is forecast to remain at 1.6% in September. Elsewhere in the US, the preliminary reading of the University of Michigan consumer sentiment index is due. The September Fed FOMC meeting minutes will also garner close attention.
- **Similarly, the ECB Governing Council Monetary Policy Meeting Account from September will also be released.** Data-wise, Eurozone industrial production for August will feature. Output contracted sharply, by 1.1% in July, and it is expected to rise by a very modest 0.1% in August. However, the available national data from France and Spain, as well as lead indicators such as the manufacturing PMI, suggest that the risks are tilted to the downside.
- **In the UK, the main release will be the monthly reading of GDP for August.** In July, GDP contracted by 0.5% m/m, although, this was partly due to disruptions to services, with strikes in the health and education sectors. A modest rebound of 0.2% m/m is pencilled in for August. In contrast, industrial production, which also declined sharply by 0.7% in July, is projected to fall by 0.2% m/m in August. **On the home front, Budget 2024 will be delivered on Tuesday.**



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
	2023	2024	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	2024
EUR/USD	1.0502	1.05	1.06	1.08
EUR/GBP	0.8648	0.87	0.87	0.87
EUR/JPY	156.90	155	153	151
GBP/USD	1.2139	1.21	1.22	1.24
USD/JPY	149.39	148	144	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		Panetta (Thu); <b>Lagarde</b> (Fri)		
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>		Logan, Barr, Jefferson (Mon); Bostic, Waller, Kashkari, Daly (Tue); Bowman, Waller, Bostic, Collins (Wed); Bostic, Collins (Thu); Harker (Fri)		
			<b>IMF World Economic Outlook (Tuesday 10th October)</b>		
<b>Mon 9th</b>	<b>US:</b>		<b>Columbus Day (Market Holiday)</b>		
	<b>GER:</b>	07:00	Industrial Output (August)	-0.8% (-2.3%)	-0.1% (-1.8%)
	<b>EU-20:</b>	09:30	EU Sentix Index (October)	-21.5	-22.8
<b>Tue 10th</b>	<b>JPN:</b>	00:50	Economy Watchers Poll (September)	53.6	
	<b>ITA:</b>	09:00	Industrial Output (August)	-0.7% (-2.1%)	-0.0%
	<b>US:</b>	11:00	NFIB Small Business Optimism (September)	91.30	
	<b>IRL:</b>	<b>13:00</b>	<b>Budget 2024</b>		
<b>Wed 11th</b>	<b>GER:</b>	07:00	Final HICP (September)	+0.2% (+4.3%)	+0.2% (+4.3%)
	<b>US:</b>	13:30	PPI Final Demand (September)	+0.7% (+1.6%)	+0.3% (+1.6%)
			- Ex-Food & Energy	+0.2% (+2.2%)	+0.2% (+2.3%)
	<b>US:</b>	19:00	Fed FOMC meeting Minutes (19-20th September)		
<b>Thu 12th</b>	<b>JPN:</b>	00:50	Machinery Orders (August)	-1.1% (-13.0%)	+0.4% (-7.3%)
	<b>UK:</b>	07:00	GDP (August)	-0.5% (+0.0%)	+0.2% (+0.5%)
			- 3m/3m	+0.2%	+0.3%
	<b>UK:</b>	07:00	Industrial Output (August)	-0.7% (+0.4%)	-0.2% (+1.7%)
			- Manufacturing Output	-0.8% (+3.0%)	-0.4% (+3.4%)
	<b>UK:</b>	07:00	Goods Trade Balance (August)	-£14.1bn	
			- Non-EU	-£2.4bn	
	<b>IRL:</b>	<b>11:00</b>	<b>CPI Inflation (September)</b>	<b>+0.7% (+6.3%)</b>	<b>+0.2% (+6.5%)</b>
			<b>- HICP Inflation</b>	<b>Flash Sep: +0.1% (+5.0%)</b>	<b>+0.1% (+5.0%)</b>
	<b>EU-20:</b>	12:00	Monetary Policy Meeting Account (13-14th Sep)		
	<b>US:</b>	13:30	CPI Inflation (September)	+0.6% (+3.7%)	+0.3% (+3.6%)
			- Core CPI Inflation	+0.3% (+4.3%)	+0.3% (+4.1%)
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 2nd October)	+207,000	+210,000
<b>Fri 13th</b>	<b>CHINA:</b>	02:30	CPI Inflation (September)	+0.3% (+0.1%)	+0.3% (+0.2%)
	<b>CHINA:</b>	02:30	PPI Inflation (September)	(-3.0%)	(-2.4%)
	<b>CHINA:</b>	04:00	Trade Balance (September)	+\$68.4bn	+\$70.0bn
			- Exports	(-8.8%)	(-8.3%)
	<b>FRA:</b>	07:45	Final HICP (September)	+0.6% (+5.6%)	-0.6% (+5.6%)
	<b>SPA:</b>	08:00	Final HICP (September)	+0.6% (+3.2%)	+0.6% (+3.2%)
	<b>EU-20:</b>	10:00	Industrial Production (August)	-1.1% (-2.2%)	+0.1% (-3.5%)
	<b>US:</b>	15:00	Preli. Uni. Michigan Consumer Sentiment (Sep)	68.1	67.5

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

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