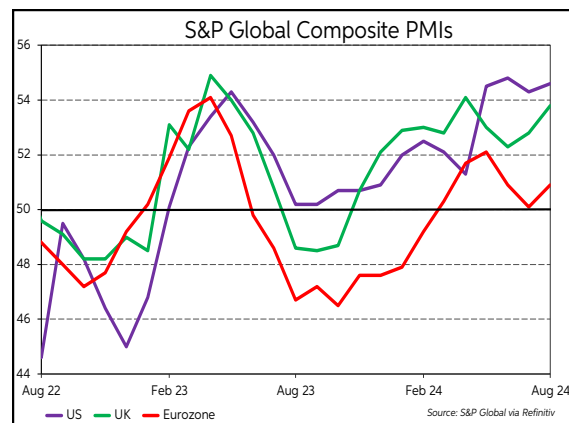


## Fed pivots from inflation to growth

- **The move by the US Fed to initiate its rate cutting cycle with a bumper 50bps cut came as somewhat of a surprise, with the focus now turning to how the Fed will proceed from here, and what impact the move will have on other central banks.** The target range for the Fed funds rate was reduced by 50bps to 4.75-5.00%. It marked the first rate change from the Fed in nine meetings. However, the decision by the FOMC to cut rates by 50bps was not unanimous, with one member (Bowman) preferring a 25bps reduction.
- **Notably, there also continues to be a relatively wide dispersion of views among FOMC members on the future path for rates.** The median projection is that rates will decline to a 4.25-4.50% range by year end. In other words, a further 50bps of rate cuts over the remaining two meetings of 2024. Rates are seen as being cut by a further 100bps in 2025 and by 50bps in 2026, falling to a 2.75-3.00% range. While the market is pricing in similar levels for terminal rates, it sees a more aggressive near term cutting cycle, factoring in the potential for continued weaker job market data, that might push the Fed to go faster than FOMC members currently project.
- **The key takeaway from the week's events is that the Fed has decisively shifted its focus away from its inflation mandate towards the labour market and GDP growth.** The deft messaging by Chair Powell also assuaged investors that the US remains on track for a “soft landing”, despite FOMC members revising up near term unemployment forecasts and trimming GDP forecasts. Given the time lags from monetary policy to the real economy, it will be some time before Powell can declare “job done” on this front.
- **The Fed pivot also raises 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 Bank of England cut by 25bps in August, it chose to hold in September, with a less dovish statement from its 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 chimes with recent inflation and wage data in the UK which still point to elevated price pressures. However, while a further 25bps cut in November is likely, a more conservative approach may put the BoE at odds with the Fed if it continues with its easing cycle at its current pace in the coming months.
- **Turning to the week ahead, the main releases of note will be the flash PMI readings for September in the UK, US and Eurozone.** In the UK, the manufacturing PMI has returned to expansion territory in recent months, and moved higher in each of the last three, consistent with an acceleration in the pace of activity in the sector. Meanwhile, the services PMI remains well above the key 50 level, averaging 52.9 so far in Q3. Both PMIs are forecast to be little changed in September. In the US, a clear divergence in performance has opened up between sectors during Q3. The services PMI has stayed in growth mode, while the manufacturing sector has moved into contraction territory, falling to 49.6 in July and to 47.9 in August. The divergence between sectors is projected to continue in September. Likewise in the Eurozone, the services sector has been outperforming manufacturing, albeit, the trend is more established, with the latter PMI below 50 since August 2022 and the former above 50 for the past six months. Worryingly in September, the manufacturing PMI is expected to deteriorate further to 45.6, with the services PMI moving back to 52.1 also.
- **In the US, the Fed’s preferred measure of inflation, core-PCE will be in focus.** So far this year, core-PCE has been falling slowly, easing to 2.6% in May, its lowest level since March 2021, and staying at that level in June and July. The consensus is for core-PCE to inch marginally higher to 2.7% in August. Elsewhere in the US, personal incomes are forecast to rise by 0.4% in August. In-line with the rise in incomes and the slowdown in the rate of inflation, a 0.3% increase in nominal personal consumption is pencilled in for the month. Meanwhile, the Conference Board measure of consumer confidence is forecast to move slightly higher in September to 103.8 from 103.3. In terms of more lagging data, the final reading of GDP for Q2 is set to confirm the US economy expanded by a 3.0% annualised rate.
- **In the Eurozone, a raft of survey data aside from the PMIs are due.** At a bloc-wide level, the EC sentiment indices for September will feature. Overall, the sectoral and headline metrics are projected to edge down somewhat in the month. At a national level, the bellwether German Ifo is forecast to remain at a relatively low level in September. Like-wise German consumer sentiment is expected to edge a bit higher but remain muted. Meanwhile on the inflation front, the flash readings of French and Spanish inflation for September will garner attention. A sharp decline back to 1.9% is envisaged for both regions.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	4.875	4.875	4.375	3.875
ECB Deposit	3.50	3.50	3.25	3.00
BoE Repo	5.00	5.00	4.50	4.00
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 Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.1154	1.11	1.12	1.13
EUR/GBP	0.8396	0.84	0.84	0.84
EUR/JPY	160.69	160	160	160
GBP/USD	1.3278	1.32	1.33	1.35
USD/JPY	144.06	144	143	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		Cipollone (Mon); <b>Lagarde</b> , Schnabel, de Guindos (Thu); Lane, Cipollone (Fri)		
	<b>BoE Speakers:</b>		Greene (Wed)		
	<b>Fed Speakers:</b>		Bostic, Goolsbee, Kashkari (Mon); <b>Powell</b> , Collins, Kugler, Williams, Kashkari, Barr (Thu); Kugler, Collins (Fri)		
<b>Mon 23rd</b>	<b>FRA:</b>	08:15	Flash HCOB Composite PMI (September)	53.1	50.6
	<b>GER:</b>	08:30	Flash HCOB Composite PMI (September)	48.4	48.2
	<b>EU-20:</b>	09:00	Flash HCOB Composite PMI (September)	51.0	50.6
			- Manufacturing / Services	45.8 / 52.9	45.6 / 52.1
	<b>UK:</b>	09:30	Flash HCOB Composite PMI (September)	53.8	53.5
			- Manufacturing / Services	52.5 / 53.7	52.5 / 53.5
	<b>US:</b>	14:45	Flash S&P Composite PMI (September)	54.6	54.4
			- Manufacturing / Services	47.9 / 55.7	48.5 / 55.3
<b>Tue 24th</b>	<b>JPN:</b>	01:30	Flash Composite PMI (September)	52.9	
	<b>GER:</b>	09:00	German Ifo (September)	86.6	86.1
	<b>US:</b>	14:00	Case-Shiller Price Index (July)	+0.4% (+6.5%)	+0.4% (+6.2%)
	<b>US:</b>	15:00	Conference Board Consumer Confidence (Sep)	103.3	103.8
<b>Wed 25th</b>	<b>FRA:</b>	07:45	INSEE Consumer Confidence (September)	92.0	92.0
	<b>US:</b>	15:00	New Home Sales (August)	+0.739m / +10.6%	+0.700m / -5.3%
<b>Thu 26th</b>	<b>GER:</b>	07:00	Gfk Consumer Sentiment (October)	-22.0	-21.5
	<b>EU-20:</b>	09:00	M3 Annual Growth (August)	+2.3%	+2.6%
			- Loans to Households	(+0.5%)	
	<b>ITA:</b>	09:00	ISTAT Consumer Confidence (September)	96.1	
	<b>ITA:</b>	09:00	ISTAT Business Confidence (September)	87.1	87.1
	<b>US:</b>	13:30	Durable Goods (August)	+9.8%	-2.6%
			- Ex-Transport	-0.2%	+0.1%
	<b>US:</b>	13:30	GDP (Q2: Final Reading)	+3.0% s.a.a.r.	+3.0% s.a.a.r.
	<b>US:</b>	13:30	PCE prices (Q2: Final Reading)	+2.5% s.a.a.r.	+2.5% s.a.a.r.
			- Core PCE (q2: Final Reading)	+2.8% s.a.a.r.	+2.8% s.a.a.r.
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 16th September)	+219,000	+225,000
	<b>JPN:</b>		BoJ Meeting Minutes (19-20th August)		
<b>Fri 27th</b>	<b>JPN:</b>	00:30	CPI Tokyo Inflation (September)	(+2.6%)	
			- Core CPI Tokyo inflation	(+2.4%)	
	<b>FRA:</b>	07:45	Flash HICP Inflation (September)	+0.6% (+2.2%)	-0.8% (+1.9%)
	<b>SPA:</b>	08:00	Flash HICP Inflation (September)	+0.0% (+2.4%)	+0.0% (+1.9%)
	<b>GER:</b>	08:55	Unemployment Rate (September)	6.0%	
	<b>EU-20:</b>	10:00	EC Economic Sentiment (September)	96.6	96.5
			- Consumer / Industrial / Services	-13.0 / -9.7 / 6.3	-13.0 / -9.8 / 5.6
	<b>ITA:</b>	10:00	Producer Price Inflation (August)	+1.3% (-1.1%)	
	<b>UK:</b>	11:00	CBI Distributive Trades (September)	-27.0	
	<b>US:</b>	13:30	Personal Income / Consumption (August)	+0.3% / +0.5%	+0.4% / +0.3%
	<b>US:</b>	13:30	PCE Price Index (August)	+0.2% (+2.5%)	+0.2% (+2.7%)
			- Core-PCE price Index	+0.2%(+2.6%)	+0.1% (+2.3%)
	<b>US:</b>	15:00	Final Uni. Michigan Consumer Sentiment (Sep)	69.0	69.3

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

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