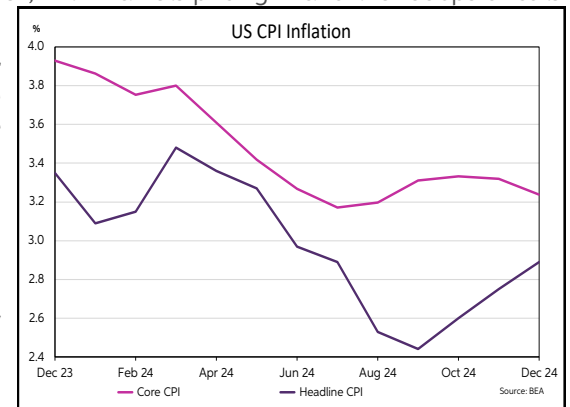


Assessing the first central bank meetings of 2025

- With all three major central banks acting as expected in their first monetary policy meetings of 2025, it's worth taking stock of where each stand and what the market outlook is for interest rates.** To recap, the Fed held rates at current levels at its meeting, while both the ECB and Bank of England cut by 25bps. This leaves the Fed at 4.50-4.75%, the ECB Deposit Rate at 2.75% and the Bank of England at 4.50%. The growing divergence between the ECB and the other majors, in particular the Fed, explains the recent weakness in the euro, although geopolitical risks and general growth concerns have also been weighing on the currency.
- With all three central bank heads also giving press conferences, investors were watching closely for any hints of a policy shift.** The overarching sense is all will proceed cautiously in the current uncertain environment. While all delivered what the market expected this time around, the outlook for growth and inflation remains clouded by what President's Trump policies might catalyse globally in 2025. This was reflected in the Bank of England Governor's comments on Thursday, post the flurry of tariff orders and subsequent delays by President Trump the previous weekend. Governor Bailey said that the Bank of England had not factored tariff impacts into its new economic forecasts, stating "you cannot make a clear and unambiguous prediction of what would happen to inflation".
- Fed Chair Powell played a similar straight bat at his press conference the previous week, although this came before the fresh US tariffs on China were implemented days later.** The materialisation of the tariff risk might force Powell to face the issue head on at his next press conference in March, and in any event, the Fed's new dot-plot is a transparent view of how FOMC members expect the President's policies to play out on US growth and inflation.
- Similarly, the threat of US tariffs on the EU will bring added focus onto ECB policy, although investors seem to be betting that weak domestic demand will outweigh any inflationary risks from a trade war.** In the week following the ECB meeting market-implied rate expectations have softened by about 20 bps for end-2025 to below 2%, compared to what was priced in on the week beginning 27th January. For the Fed, markets are still pricing in a similar shallow trajectory for the Fed's Funds rate to fall to 3.75-4.00% by end-2025. For the Bank of England, the perceived dovish tilt in the 7-2 vote of the Monetary Policy Committee, saw an immediate weakening in sterling and a sharp move in rate expectations, which did unwind somewhat thereafter. UK rate expectations are now only about 5bps softer compared to the start of this week, with markets pricing in a further 60bps of cuts to get Bank rate to at least 4.0% by the end of the year.

Turning to the week ahead, a busy US data schedule includes CPI inflation for January. In recent months, CPI has proven to be quite sticky. The headline rate trended lower in the first three quarters of 2024 but re-accelerated at the end of the year, jumping to 2.9% in November and December. Similarly, core-CPI eased slowly to a low of 3.2% last July and August, but printed at 3.3% between September-November, before inching back to 3.2% in December. The consensus is for the headline rate to stay at 2.9% in January while the core rate is projected to decline slightly to 3.1%.



Elsewhere in the US, retail sales and industrial production data for January will feature. Retail sales continued to rise at a robust pace throughout Q4, with both the headline and control group measures performing well. In January though, the former is forecast to contract by 0.1%, albeit the latter is set to rise by 0.3%. Meantime, industrial production remained volatile in Q4, although it did register strong growth in December, rising by 0.9% m/m. A more modest increase of 0.3% is pencilled in for January. **On the monetary policy front, Fed Chair Powell's semi-annual testimony to both houses of Congress will garner significant attention.**

In the UK, the first reading of GDP for Q4 is due. Growth stagnated in Q3 and the monthly readings for October and November have also been quite subdued, indicating the economy lost some momentum in the second half of last year. Furthermore, despite expectations for a 0.2% rise in activity in December, a 0.1% contraction is forecast overall for the final quarter of 2024. Meanwhile, industrial production is projected to rebound by 0.3% in December, having declined by 0.6% m/m and 0.4% m/m in October and November.

In the Eurozone, industrial production for December is also due. As in the US, industrial production has been somewhat erratic throughout 2024, although the overarching trend has been for weaker output. However, in contrast to the UK, output increased marginally in the opening two months of Q4. The consensus is for output to revert to trend in December though, with production set to contract by 0.5% in the month, in-line with falls already seen in Germany and France. Elsewhere, updated employment figures and the second reading of Eurozone GDP for Q4 will be released.

	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.75	2.50	2.25	2.00
BoE Repo	4.50	4.50	4.25	4.00
BoJ OCR	0.50	0.50	0.50	0.50

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
EUR/USD	1.0371	1.07	1.08	1.08
EUR/GBP	0.8332	0.83	0.84	0.84
EUR/JPY	157.17	161	161	160
GBP/USD	1.2443	1.28	1.28	1.28
USD/JPY	151.52	150	150	149

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Schnabel (Tue); Cipollone (Thu)		
	BoE Speakers:	Mann, Bailey (Tue); Greene (Wed)		
	Fed Speakers:	Powell , Hammack, Williams (Tue); Powell , Bostic (Wed)		
Mon 10th	EU-20: 09:30	Sentix Index (February)	-17.7	-17.0
Tue 11th	US: 11:00	NFIB Small Business Optimism (January)	105.1	
Wed 12th	ITA: 09:00	Industrial Output (December)	+0.3% (-1.5%)	-0.2%
	US: 13:30	CPI Inflation (January)	+0.4% (+2.9%)	+0.3% (+2.9%)
		- Core CPI	+0.2% (+3.2%)	+0.3% (+3.1%)
Thu 13th	GER: 07:00	Final HICP Inflation (January)	-0.2% (+2.8%)	-0.2% (+2.8%)
	UK: 07:00	GDP (Q4: Preliminary Reading)	+0.0% (+0.9%)	-0.1% (+1.1%)
	UK: 07:00	GDP (December)	+0.0% (+0.1%)	+0.1% (+1.1%)
	UK: 07:00	Industrial Output (December)	-0.4% (-1.8%)	+0.3% (-2.0%)
		- Manufacturing Output	-0.3% (-1.2%)	+0.0% (-1.8%)
	UK: 07:00	Goods Trade Balance (December)	-£19.3bn	
		- Non-EU	-£7.7bn	
	EU-20: 10:00	Industrial Production (December)	+0.2% (-1.9%)	-0.5% (-3.0%)
	US: 13:30	Initial Jobless Claims (w/e 3rd February)	+219,000	+215,000
	US: 13:30	PPI Final Demand Inflation (January)	+0.2% (+3.3%)	+0.2% (+3.2%)
		- Ex-Food & Energy	+0.0% (+3.5%)	+0.3% (+3.3%)
Fri 14th	SPA: 08:00	Final HICP Inflation (January)	-0.1% (+2.9%)	-0.1% (+2.9%)
	EU-20: 10:00	Employment (Q4: Flash Estimate)	+0.2% (+1.0%)	
	EU-20: 10:00	GDP (Q4: Flash Estimate)	+0.0% (+0.9%)	+0.0% (+0.9%)
	US: 13:30	Retail Sales (January)	+0.4% (+3.9%)	-0.1% (+4.7%)
		- Ex-Autos	+0.4%	+0.3%
		- Control Group	+0.7%	+0.3%
	US: 14:15	Industrial Production (January)	+0.9% (+0.6%)	+0.3% (2.0%)
		- Manufacturing Output	+0.6%	
		- Capacity Utilisation	77.6%	77.8%

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

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