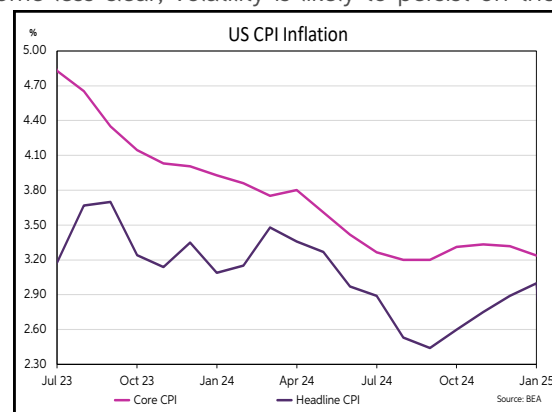


## March Madness for the dollar

- While global trade and fiscal policies were very much front and centre of market discourse and action over recent days, there were also important developments in relation to monetary policy.** Specifically, the European Central Bank (ECB) cut rates by 25bps at its March Governing Council meeting, lowering the Deposit rate to 2.50%. With the cut to rates fully priced in by markets, the key point of interest for investors, was what guidance, if any, would be forthcoming from the ECB on the future path of official rates. In this regard, the meeting statement continued to emphasise that the central bank will follow a “data-dependent” approach. However, there was a significant change to the statement, with the ECB now stating that “monetary policy is becoming meaningfully less restrictive”. In other words, the extent of further rate cuts is likely to be limited. On top of this, President Lagarde stated that, “if the data points to a pause, we will pause, if the data points to a cut, we will cut”. Thus, while the ECB maintains a willingness to cut rates again if warranted, the direction of monetary policy has become less clear. In terms of market expectations, futures contracts suggest traders anticipate around 40bps of further policy easing from the ECB over the remainder of this year. This would see the Deposit rate end the year near 2%.
- From a currency perspective, the euro shrugged off any potential downside from the ECB rate cut.** Instead, the standout underperformer on FX markets over recent days has been the dollar, which has lost 2-4% on the exchanges. Since the autumn, US growth exceptionalism/expectations and interest differentials have underpinned the dollar but these drivers have reversed in the last week or so amid trade policy uncertainty and softer US macro data. At the same time, recently announced European Union plans to increase defence spending and a seismic expansionary shift in Germany in relation to defence and infrastructure spending, has seen Eurozone swap rates/yields move significantly higher. It has also improved medium-term growth prospects for the region, although the near-term outlook remains challenging.
- In level terms, EUR/USD has traded up above the \$1.08 level to its highest mark since November.** Likewise, dollar weakness was reflected in GBP/USD moving up into \$1.29 territory, having been below \$1.26 only a few days ago. Meanwhile, the euro has also made gains versus sterling with the EUR/GBP pair moving back up to the 84p threshold. The sharp moves over recent days highlight the increased sensitivity of the FX majors to geopolitics and global trade newsflow. With no sign of any let up on these issues in the near term, and given the direction of monetary policy has become less clear, volatility is likely to persist on the currency front.
- Turning to the week ahead, the main data release of note will be US CPI inflation for February.** 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, and to 3.0% in January. Similarly, core-CPI eased slowly to a low of 3.2% last July and August, but it has printed in a 3.2-3.3% range every month to January since then. The consensus is for the headline rate to edge back to 2.9% in February while the core rate is projected to decline slightly to 3.2%.
- Elsewhere in the US, producer price inflation is forecast to fall to 3.3% in February from 3.5% in January.** Meantime, the preliminary reading of the University of Michigan Consumer Sentiment Survey for March will garner attention. The headline index registered five months of solid gains in the second half of 2024 before declining sharply in the opening two months of 2025, with February’s level of 64.7 the lowest since November 2023. A further deterioration to 63.9 is pencilled in for March. In terms of the labour market, JOLTS job openings figures for January are due.
- In the UK, the monthly update of GDP for January will be the highlight.** Having contracted in the three months between September to November, GDP rebounded by 0.4% in December. However, the UK economy has been broadly stagnant in the second half of the year, with growth of just 0.1% overall recorded during the period. This suggests momentum will slow again after December’s unexpected bounce. Indeed, a meagre 0.2% increase is forecast for January. In a similar vein, UK Industrial production declined (albeit more sharply) between September to November, before recovering somewhat at the end of 2024. However, a 0.1% contraction is expected in January.
- In the Eurozone, industrial production data are also due.** Industrial output was 3% lower in 2024 compared to 2023. Worryingly, the downward trajectory persisted in Q4, with production falling by 0.5% in the quarter, largely due to a 1.1% decline in December. It was the seventh successive quarterly contraction in Eurozone industrial production. A modest 0.6% increase is projected in January though.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2025	2025	2025
Fed Funds	4.375	4.375	4.375	4.125
ECB Deposit	2.50	2.50	2.25	2.00
BoE Repo	4.50	4.50	4.25	4.00
BoJ OCR	0.50	0.50	0.75	0.75

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	1.0845	1.03	1.04	1.05
EUR/GBP	0.8399	0.83	0.83	0.84
EUR/JPY	159.76	155	157	157
GBP/USD	1.2909	1.25	1.26	1.26
USD/JPY	147.32	150	150	149

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast	
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Lagarde, Lane (Wed); De Guindos (Thu)</b>			
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>				
<b>Mon 10th</b>	<b>GER:</b>	07:00	German Industrial Output (January)	-2.4% (-3.1%)	+1.5% (-2.8%)
	<b>GER:</b>	07:00	Trade Balance (January)	+€20.7bn	+€21.0bn
	<b>EU-20:</b>	09:30	EU Sentix Index (March)	-12.7	-10.0
	<b>JPN:</b>	23:50	GDP (Q4: Revised Reading)	+0.7%	+0.7%
<b>Tue 11th</b>	<b>US:</b>	10:00	NFIB Small Business Optimism (February)	102.8	
	<b>US:</b>	14:00	JOLTS Job Openings (January)	7.6m	
<b>Wed 12th</b>	<b>US:</b>	12:30	CPI Inflation (February)	+0.5% (+3.0%)	+0.3% (+2.9%)
			- Core-CPI	+0.4% (+3.3%)	+0.3% (+3.2%)
<b>Thu 13th</b>	<b>EU-20:</b>	10:00	Industrial Production (January)	-1.1% (-2.0%)	+0.6% (-1.0%)
	<b>IRE:</b>	<b>11:00</b>	<b>CPI Inflation (February)</b>	<b>-0.8% (+1.9%)</b>	<b>+0.7% (+1.6%)</b>
			<b>- HICP Inflation</b>	<b>Flash: +0.7% (+1.3%)</b>	<b>+0.7% (+1.3%)</b>
	<b>US:</b>	12:30	Initial Jobless Claims (w/e 3rd March)	+221,000	
	<b>US:</b>	12:30	PPI Final Demand (February)	+0.4% (+3.5%)	+0.3% (+3.3%)
			- PPI Ex-Food & Energy	+0.3% (+3.6%)	+0.3%
<b>Fri 14th</b>	<b>GER:</b>	07:00	Final HICP Inflation (February)	+0.6% (+2.8%)	+0.6% (+2.8%)
	<b>UK:</b>	07:00	GDP (January)	+0.1% (+1.5%)	+0.2% (+1.2%)
			- 3 mth / 3 mth	+0.1%	+0.3%
	<b>UK:</b>	07:00	Industrial Output (January)	+0.5% (-1.9%)	-0.1% (-0.8%)
			- Manufacturing Output	+0.7% (-1.4%)	+0.0% (-0.6%)
	<b>UK:</b>	07:00	Goods Trade Balance (January)	-£17.5bn	
			- Non-EU	-£6.1bn	
	<b>FRA:</b>	07:45	Final HICP Inflation (February)	-0.2% (+0.9%)	-0.2% (+0.9%)
	<b>SPA:</b>	08:00	Final HICP Inflation (February)	+0.4% (+2.9%)	+0.4% (+2.9%)
	<b>ITA:</b>	09:00	Industrial Output (January)	-3.1% (-7.1%)	+1.2%
	<b>US:</b>	14:00	Prel. Michigan Consumer Sentiment (March)	64.7	63.9

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

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