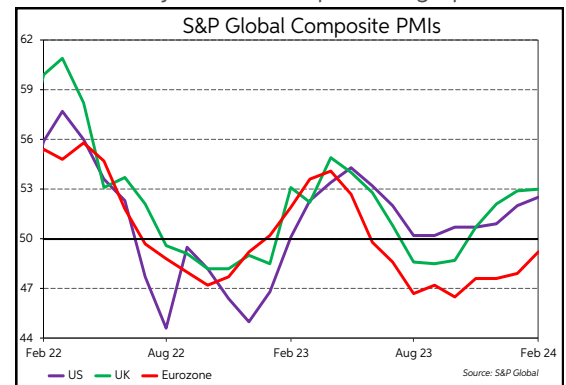


Inflation Data Dampen Rate Cut Expectations

- **This week is set to be an important period for markets as three key central banks (Fed, BoJ, BoE) announce monetary policy decisions.** In particular, markets will be closely observing the Bank of Japan, with expectations growing that it will announce its first rate hike since 2007, on the back of stronger than expected inflation and wage growth in recent months. Market pricing is split down the middle as to whether the BoJ will hike rates by 10bps to 0% or leave policy unchanged. In any case, it looks increasingly likely the BoJ will raise rates in the first half of the year, exiting its negative interest rate policy for the first time since 2016.
- **In the US, market rate expectations have firmed recently, with US inflation data printing more strongly than expected.** US CPI surprised to the upside for February, with core CPI rising 0.4% on the month (consensus: +0.3%), and up 3.8% on the year (cons: +3.7%), easing only marginally from the 3.9% rise in January. Housing costs remain stubbornly high and drove the above-consensus out-turn for CPI last month, but this category has been volatile recently. Furthermore, it is expected to moderate in the coming months, in line with timelier housing market surveys. However, other inflation metrics are starting to flash amber. US producer prices (PPI) also printed much higher than expected, with headline PPI rising 0.6% on the month, well above the +0.3% consensus, largely due to higher energy and transport costs. Core PPI rose 0.4% on the month and accelerated to 2.8% on the year from 2.7% in January. Indeed, annual core PPI has plateaued in the 2.5-3% range over the past few months. Moreover, New York Fed inflation expectations rose to a 6-month high in February. Expectations for inflation in 3 and 5-years time increased by 0.3 and 0.4 percentage points to 2.7% and 2.9%, respectively, according to the bank's latest survey.
- **Against this backdrop, the most recent communication from Fed officials suggest they are in no hurry to cut rates.** In testimony to Congress earlier this month Chair Powell stated the Fed are “waiting to become more confident that inflation is moving sustainably at 2%”, before cutting interest rates. However, he went on to say it will likely be appropriate to “begin dialling back policy restraint at some point this year”. A number of other Fed officials, speaking before the aforementioned inflation data, also called for patience in assessing the outlook before altering the direction of policy.
- **The latest inflation data and Fed rhetoric has led to a firming in US market rate expectations.** Current pricing suggesting there is a 70% chance the Fed will cut rates in June, and with a total of 75bps worth of rate cuts anticipated by year end. This is in-line with the Fed's last interest rate dotplot from December, which showed the median projection from the FOMC was for 75bps of rate cuts in 2024. Thus, given no changes to interest rates are anticipated this week, the main focus will be on the updated economic projections, including the dotplot, as well as, remarks from Chair Powell at the press conference.
- **Similar to his US counterpart, BoE Governor Bailey has noted that the MPC needs to be “more confident that inflation will fall all the way back to the 2% target and stay there”.** As a result, the BoE is also widely expected to leave policy on hold this week. Instead, investors will pay close attention to the vote split on the MPC and any guidance on the interest rate outlook in the post-meeting statement. Markets are currently pricing in a first UK rate cut in August, and 60bps of easing by year end. Given the BoE's data dependent stance, CPI inflation for February will garner a lot of attention. The consensus is for the headline rate to edge lower to 3.6%, with core-CPI declining to 4% as well. Elsewhere in the UK, retail sales, which have been volatile in recent months are projected to contract by 0.3% in February, following a 3% increase at the start of the year. Encouragingly though, consumer sentiment is forecast to improve in March.
- **Meanwhile, the flash PMIs for March in the Eurozone, US and UK will feature.** In the Eurozone, the manufacturing PMI has been in contraction territory for 21 straight months. However it has edged higher recently, and has averaged 46.6 so far in Q1, up from an average of 43.9 in Q4. Meantime, the services PMI printed above the key 50 level in February, for the first time since July. A modest increase for both the PMIs is pencilled in for March. Similarly in the UK, the services PMI has been in expansion territory, while the manufacturing PMI has been well below the key 50 mark. Both UK PMIs are forecast to show minor improvement in March. In the US, the PMIs have been in expansion mode so far in 2024, and they are projected to maintain this trend in March.
- **A slew of other survey data are also due.** Notably, the flash reading of Eurozone consumer confidence is expected to rise to -14.6, its highest level since February 2022. Meantime, the German Ifo and ZEW measures of economic sentiment are forecast to remain at subdued levels, consistent with weak economic activity in the EU's largest economy.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2024	2024	2024	2024
Fed Funds	5.375	5.375	5.125	4.875
ECB Deposit	4.00	4.00	3.75	3.25
BoE Repo	5.25	5.25	5.25	5.00
BoJ OCR	-0.10	-0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1	End Q2	End Q3
	2024	2024	2024	2024
EUR/USD	1.0883	1.10	1.10	1.11
EUR/GBP	0.8543	0.86	0.87	0.87
EUR/JPY	162.19	164	159	158
GBP/USD	1.2736	1.28	1.26	1.28
USD/JPY	149.01	149	145	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde , Lane, Schnabel (Wed); Lane (Fri)		
	BoE Speakers:				
	Fed Speakers:		Bostic (Fri)		
Mon 18th	IRL:		St. Patrick's Day Holiday (Bank Holiday)		
	CHINA:	02:00	Industrial Output (February)	(+6.8%)	(+5.0%)
	CHINA:	02:00	Retail Sales (February)	(+7.4%)	(+5.2%)
	CHINA:	02:00	Unemployment Rate (January)	5.1%	
	EU-20:	10:00	Total Trade Balance (January)	+€13bn	
	EU-20:	10:00	Final HICP Inflation (February)	+0.4% (+2.6%)	+0.6% (+2.6%)
			- Ex-Food & Energy	+0.6% (+3.3%)	+0.6% (+3.3%)
			- Ex-Food, Energy, alcohol & Tobacco	+0.7% (+3.1%)	+0.7% (+3.1%)
	US:	14:00	NAHB Homebuilder Sentiment (March)	48.0	48.0
Tue 19th	JPN:		BoJ Interest Rate Decision	-0.10%	0.0%
	EU-20:	10:00	Labour Costs (Q4)	(+5.3%)	
			- Wages	(+5.3%)	
	GER:	10:00	ZEW Economic Sentiment (March)	19.9	21.0
	US:	12:30	Building Permits (February)	+1.49m / -0.3%	+1.50m / +0.7%
			- Housing Starts	+1.331m / -14.8%	+1.450m / +11.0%
Wed 20th	UK:	07:00	CPI Inflation (February)	-0.6% (+4.0%)	+0.7% (+3.6%)
			- Core-CPI	-0.9% (+5.1%)	+0.6% (+4.6%)
	UK:	07:00	PPI Output Prices (February)	-0.2% (-0.6%)	
			- PPI Input Prices (February)	-0.8% (-3.3%)	
	IRL:	11:00	Residential Property Price Index (January)	+1.5% (+4.4%)	+0.5% (+5.5%)
	EU-20:	15:00	Flash Consumer Confidence (March)	-15.5	-14.6
	US:	18:00	Fed FOMC Interest Rate Announcement		
			- Fed Funds Target Range	5.25-5.50%	5.25-5.50%
	US:	18:30	Fed FOMC Post-Meeting Press Conference		
Thu 21st	JPN:	00:30	Flash Jibun Composite PMI (March)	50.6	
	FRA:	07:45	INSEE Business Climate (March)	98.0	98.0
	FRA:	08:15	Flash HCOB Composite PMI (March)	48.1	48.1
	GER:	08:30	Flash HCOB Composite PMI (March)	46.3	47.0
	EU-20:	09:00	Flash HCOB Composite PMI (March)	49.2	49.7
			- Manufacturing / Services	46.5 / 50.2	47.0 / 50.5
	UK:	09:30	Flash HCOB Composite PMI (March)	53.0	53.3
			- Manufacturing / Services	47.5 / 53.8	47.8 / 54.0
	UK:	12:00	BoE Interest Rate Announcement		
			- Bank Rate	5.25%	5.25%
	US:	12:30	Initial Jobless Claims (w/e 11th March)	+209,000	
	US:	13:45	Flash S&P Composite PMI (March)	52.5	52.2
			- Manufacturing / Services	52.2 / 52.3	51.7 / 52.0
	US:	14:00	Existing Home Sales (February)	4.00m / +3.1%	+3.94m / -1.5%
	JPN:	23:30	CPI Inflation (February)	+0.1% (+2.2%)	
			- Core-CPI	-0.1% (+2.0%)	(+2.8%)
Fri 22nd	UK:	00:01	Gfk Consumer Confidence (March)	-21.0	-20.0
	UK:	07:00	Retail Sales (February)	+3.4% (+0.7%)	-0.3% (-0.8%)
			- Ex-Fuel	+3.2% (+0.7%)	-0.1% (-0.9%)
	GER:	09:00	Ifo Business Climate (March)	85.5	86.0
	UK:	11:00	CBI Trends - Orders	-20.0	

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

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