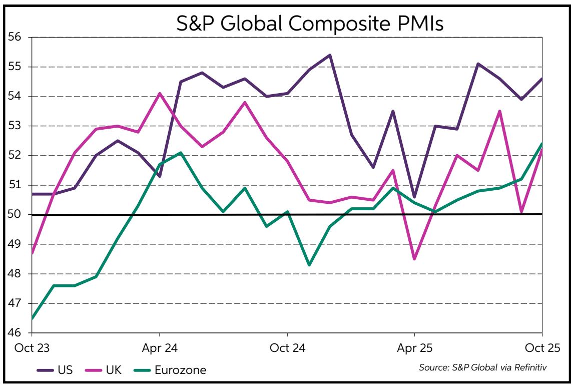
Weekly Market Brief

AIB Treasury Economic Research Unit

17th – 21st November 2025

Misty Mountain Hop

- **With the UK budget coming rapidly into view, markets have baulked at media speculation suggesting the Chancellor will row back on a planned fiscal consolidation.** Indeed, over the past 24 hours, UK gilt yields have risen by circa 10bps at the long end of the curve, following a Financial Times report which suggested the Chancellor was planning to abandon plans for significant income tax rises.
- **It appears the Chancellor has reduced the scale of the planned tax hikes on the back of improved fiscal forecasts from the budgetary watchdog, the Office for Budgetary Responsibility (OBR).** While the details will be revealed on November 26th, this improved OBR forecast may have been in part due to the recent fall in UK gilts yields, which likely reduced the debt servicing costs projected in the Budget. Since the beginning of October, UK 10-year yields had fallen from around 4.8% to a trough of below 4.4% at the beginning of November. While a softening in UK inflation and interest rate expectations played a part, markets were also pricing in the well-flagged budget measures to expand the headroom against the Chancellor's fiscal rules, including income tax hikes.
- **The circularity of this fragile budget strategy has now unwound with the renewed rise in gilt yields today, with the 10-year now trading at around 4.5%.** The big picture is UK budget policy has become highly short term in nature since the Lizz Truss "mini budget", with successive Chancellors changing and breaking fiscal rules in response to swings in financial markets or under political pressure. The U-turn on some welfare spending cuts during the summer by Chancellor has also left her further exposed to the vagaries of the gilt market ahead of the budget.
- **In this context, the IMF and others have recommended a move away from twice-annual budgetary cycles which rely on highly uncertain fiscal forecasts by the OBR, towards a single annual fiscal forecast and a focus on more strategic long-term planning.** Indeed, former IMF Chief Economist Gita Gopinath recently noted that academic research found that having a single annual budget for the UK could raise industrial production on an annual basis by 0.3% (around £1.5bn) and strengthen sterling by 0.5%. **While the Chancellor may need to take some tactical decisions in the budget, this could be combined with a more credible long-term strategy to break the doom loop between fiscal policy and gilt markets.** Unfortunately, for now at least, "short-termism" is likely to remain a key feature of UK fiscal policy – especially if the Chancellor fails to build enough headroom into the Budget (as was the case last year) by refusing to take tough choices on taxation.
- **Meanwhile, a number of updates on the consumer-side of the UK economy will feature this week.** Perhaps most importantly, the October CPI inflation report will be released. Overall, inflation in the UK remains elevated, but it has likely peaked. Having reached 3.8% in July, the headline rate stayed at that level throughout the remainder of the quarter. Meantime, core inflation inched lower to 3.5% in September, down from 3.6% in August. Both rates are projected to fall to 3.6% and 3.4% in October. Elsewhere, retail sales are forecast to expand by a meagre 0.1% in October, following a strong turn-out in Q3, in which they rose by a cumulative 1.3%. Looking ahead though, consumer confidence is expected to deteriorate to –18.0 in November, from –17.0 in October.



- **Elsewhere, the flash PMIs for November in the main advanced economies are due.** Across the board, the services sector is outperforming manufacturing, albeit the contrast is most stark in the Eurozone and UK. In the Eurozone, the manufacturing PMI printed at 50.0 in October, indicating a stabilisation of conditions in the sector following a slight contraction at the end of Q3. Meanwhile, the services PMI rose to 53.0 in October, its highest level since May 2024. The consensus is for the manufacturing PMI to rise marginally to 50.2 in November, while the services PMI is set to be unchanged. The UK services PMI has also been in expansion mode recently, whereas the manufacturing PMI has been consistent with activity in the sector contracting, albeit its October reading of 49.7 was its highest in a year. However, both sectors are forecast to move lower once again in November. In the US, the manufacturing and services PMIs were firmly in expansion territory in October, at 52.5 and 54.8, respectively. Expectations are for both sectors to be little changed in November.
- **In the US, it still remains unclear how quickly the Bureau of Labour Statistics and the Bureau of Economic Analysis will be able to resume releasing data, following the end of the government shutdown.** Indeed, the White House has already signalled that due to the prolonged nature of the shutdown, some data for October simply wasn't collected meaning it cannot be released. **However, the September payrolls number may be released this week.** Meanwhile, the Fed FOMC minutes from the October meeting are due. The minutes will garner significant attention given the decision was split three-ways and because a rate cut in December is not seen as a foregone conclusion.

Interest Rate Forecasts

	Current	End Q4 2025	End Q1 2026	End Q2 2026
Fed Funds	3.875	3.625	3.375	3.125
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.00	3.75	3.75	3.50
BoJ OCR	0.50	0.75	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

Exchange Rate Forecasts (Mid-Point of Range)

	Current	End Q4 2025	End Q1 2026	End Q2 2026
EUR/USD	1.1619	1.19	1.20	1.20
EUR/GBP	0.8842	0.88	0.88	0.87
EUR/JPY	179.36	174	174	174
GBP/USD	1.3136	1.35	1.36	1.38
USD/JPY	154.36	146	145	145

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 17th - Friday 21st November

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Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		de Guindos, Lane, Cipollone (Mon); de Guindos, **Lagarde** (Fri)		
	BoE Speakers:		Greene (Thu)		
	Fed Speakers:		Williams, Kashkari (Mon); Barkin (Tue); Barkin, Williams (Wed); Williams (Fri)		
Mon 17th	**ITA:**	09:00	Final HICP Inflation (October)	-0.2% (+1.3%)	-0.2% (+1.3%)
Tue 18th	**US:**	15:00	NAHB Homebuilder Sentiment (November)	37.0	
Wed 19th	**UK:**	07:00	CPI Inflation (October)	+0.0% (+3.8%)	+0.4% (+3.6%)
			- Core-CPI	+0.0% (+3.5%)	+0.4% (+3.4%)
			- Services-CPI	-0.3% (+4.7%)	(+4.6%)
	EU-20:	10:00	Final HICP Inflation (October)	+0.1% (+2.1%)	+0.1% (+2.1%)
			- Ex-Food & Energy	+0.1% (+2.1%)	+0.1% (+2.1%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.3% (+2.4%)	+0.3% (+2.4%)
	IRE:	***11:00***	***Residential Property Price Index (September)***	***+1.0% (+7.4%)***	***+0.6% (7.3%)***
	US:	19:00	Fed FOMC Meeting Minutes (28-29th October)		
Thu 20th	**GER:**	07:00	Producer Prices (October)	-0.1% (-1.7%)	+0.0% (+1.9%)
	UK:	11:00	CBI Trends - Orders (November)	-38.0	
	IRE:	***11:00***	***Labour Force Survey (Q3 2025)***		
	EU-20:	13:30	Philly Fed Business Index (November)	-12.8	-3.1
	US:	15:00	Flash Consumer Confidence (November)	-14.2	-14.0
Fri 21st	**UK:**	00:01	Gfk consumer Confidence (November)	-17.0	
	JPN:	00:30	Flash S&P Composite PMI (November)	51.5	
	UK:	07:00	Retail Sales (October)	+0.5% (+1.5%)	+0.1%
			- Ex-Fuel	+0.6% (+2.3%)	-0.2% (+2.1%)
	FRA:	07:45	INSEE Business Climate (November)	97.0	96.0
	SPA:	08:00	Overnight Stays (October)	Oct'24: 33.9m	
	FRA:	08:15	Flash HCOB Composite PMI (November)	47.7	48.5
	GER:	08:30	Flash HCOB Composite PMI (November)	53.9	53.7
	EU-20:	09:00	Flash HCOB Composite PMI (November)	52.5	52.5
			- Manufacturing / Services	50.0 / 53.0	50.2 / 53.0
	UK:	09:30	Flash S&P Composite PMI (November)	52.2	51.8
			- Manufacturing / Services	49.7 / 52.3	49.1 / 51.9
	US:	14:45	Flash S&P Composite PMI (November)	54.6	54.5
			- Manufacturing / Services	52.5 / 54.8	52.4 / 54.6
	US:	15:00	Final Uni. Michigan Consumer Sentiment (Nov)	50.3	50.5

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