CUSTOMER TREASURY SERVICES

Economist's Weekly Market View

Tuesday, December 17th, 2024

Central banks deliver an early Christmas present

With a flurry of central bank meetings occurring in the two weeks before the Christmas break, the majority have been opting for further rate cuts. Most pertinently for the Irish economy, the ECB delivered an expected 25 basis point (bps) cut, accompanied by a dovish tilt in its meeting statement. This leaves the Deposit rate at 3.00% and the Re-fi rate at 3.15%. In particular, the statement dropped the reference to keeping policy "sufficiently restrictive", indicating a more dovish bias on the ECB Governing Council. This tone was echoed by President Lagarde in her press conference, but she remained "data-dependent" in terms of the future path for rates. The market expects the ECB will continue to ease policy in 2025 given the weakening growth and inflation profile in the Eurozone.

Elsewhere, a bumper 50 bps cuts by the Swiss National Bank was targeted at both weak inflation and a strong Franc that risks undermining Swiss exports. Further afield, the Bank of Canada also delivered a 50bps cuts, while warning about the impact of potential Trump tariffs on the economy. The Reserve Bank of Australia bucked the trend by standing pat on rates but it prepared the ground for near-term cuts amid a slowing domestic growth profile.

Ahead of the final 2024 central bank meetings, the aforementioned decisions have left markets broadly unmoved, with much of the policy moves already priced in ahead of the announcements. The dollar was generally in the ascendency over the past week, while ECB rate futures firmed slightly post that meeting. Current pricing indicates that the market now expects circa 115 bps worth of rate cuts in 2025, compared to 125bps previously, with the terminal rate now at circa 1.75-2.0% for ECB rates by Q3 2025.

Turning to the week ahead, the main central bank focus will be on the final US Federal Reserve meeting of the year. The Fed has lowered rates by a cumulative 75bps at its last two meetings. Despite signs of sticky inflation and still tight labour market conditions, market pricing is leaning towards another 25bps rate cut this week. However, a more gradual pace of easing is expected next year, with futures contracts indicating the target range will be reduced by a further 50bps, to 3.75-4.00% by end 2025. Aside from the policy decision, the press conference with Chair Powell and the updated Summary of

Economic Projections, including the interest rate dot-plot, will garner attention, as investors look for guidance on the future path of policy.

Elsewhere on the monetary policy front, the Bank of England and the Bank of Japan are expected to leave interest rates on hold. However, as in the US, market participants will digest the respective meeting statements from both central banks for any insights on the pace of rate changes next year, with the Bank of England projected to cut rates gradually and the Bank of Japan to hike rates cautiously in 2025.

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