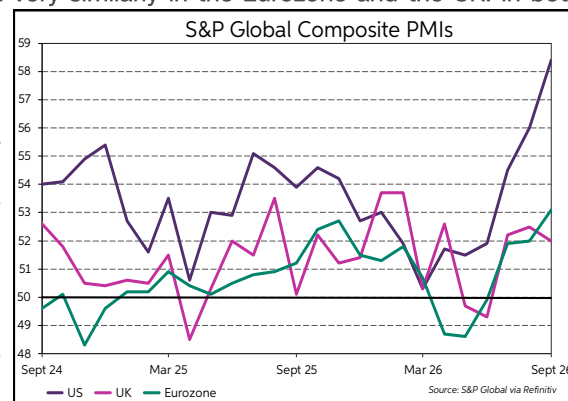


Fog of War

- **Amid a stasis in the conflict in the Middle East, this week's CPI inflation data from the US suggested price pressures might be broadening out ahead of the upcoming Fed monetary policy meeting.** The latest CPI report showed a rise in both headline and core inflation in September. On a headline basis, the sharp uptick to 3.7% from 3.4% in August was not a surprise, given the surge in oil and gas prices during the month. More concerning was the faster-than-expected rise in core inflation, which excludes energy, to 2.6% from 2.4% the prior month. It should also be noted that US PPI inflation increased by more than anticipated, to 6.3% in September, suggesting that underlying price pressures are intensifying.
- **At face value this might be a hawkish signal for policymakers ahead of the next FOMC meeting on October 28th.** Indeed, one of the metrics recently cited by Fed Chair Kevin Warsh as part of his 'data dashboard' signals a broadening out in inflationary pressures. That is the share of CPI categories where annualised prices are running above 3%. This edged up to 49% of all categories in September, from 46% in August.
- **Speaking after the data had been released, at the annual IMF meetings in Bangkok, Warsh refused to be drawn on the near-term outlook for rates.** When asked about the prospects of a further rate hike in October, he said "I don't prejudge meetings. I don't believe in saying now what I might do at the meetings we have in the balance of this year." This commentary is in keeping with Warsh's strategy of eschewing any sort of forward guidance since taking the role in May. Nevertheless, the comments coincided with a fall in the dollar and a slight softening in interest rate futures. Current pricing indicates there is just a 15-20% chance that the Fed raises rates at its October meeting, down from around 30% earlier in the week.
- **Warsh also returned to the broader macro theme of the boom in AI-related investment, and the resulting prospects for the economy.** Warsh's long-held view is that this investment will ultimately bring down inflation, and informs his dovish outlook for interest rates long-term, which he espoused before rejoining the FOMC. Warsh noted the investment surge "isn't just AI," but it is also branching out, and that this positive supply shock will increase the capacity of the economy to produce more demand without pushing up prices.
- **This suggests that, once a lasting ceasefire and reopening of trade routes can be found in the Middle East – perhaps post the US midterm elections – Warsh will begin pushing the case for rate cuts as energy prices fall.** For now, the war continues to pose upside risks to inflation and interest rates. In any event, the Fed shifting rates just days ahead of the midterms, could be viewed as an overtly political act by policymakers. It seems very likely then, that the Fed will stand pat later this month despite the emerging signs of strengthening inflationary pressures.
- **Turning to the week ahead, the flash PMIs for October across the main advanced economies will feature.** In recent months both the manufacturing and services PMIs have performed very similarly in the Eurozone and the UK. In both regions the services PMI was in contraction mode in Q2, but printed in expansion territory throughout Q3. At the same time, their respective manufacturing PMIs have been firmly above the key 50 threshold, albeit the Eurozone survey improved modestly throughout Q3, whereas the UK reading declined slightly. The consensus is for the PMIs to inch marginally lower across both regions and sectors in October. Meanwhile, the US PMIs have registered very strong monthly readings throughout this year, indicating robust levels of activity in manufacturing and services. In September, the US manufacturing sector registered its highest level since May 2022, with the services sector recording its fastest growth rate since July 2021. However, a small move lower is pencilled in for both in October.
- **Elsewhere, a busy data calendar in the UK includes labour market, inflation and retail sales.** In terms of the labour market, the unemployment rate has remained relatively steady this year. It fell from 5.2% in January to 4.9% in February, and it has printed in a 4.9-5.0% range since then. However, this has partly been driven by people leaving the labour force. Payrolls have contracted in each of the last seven months to August. The consensus is for the unemployment rate to remain at 4.9% in August. Meanwhile, CPI inflation is forecast to increase for a third successive month, up to 3.4% in September from 3.1%. Core inflation is expected to rise to 2.8% from 2.6% also. The recent resurgence in inflation is projected to weigh on retail sales, as a minor 0.2% contraction is envisaged in September.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2026	2027	2027
Fed Funds	3.875	4.125	4.125	4.125
ECB Deposit	2.50	2.75	2.75	2.75
BoE Repo	3.75	4.00	4.25	4.25
BoJ OCR	1.25	1.25	1.50	1.50
Current Rates Reuters, Forecasts AIB's ERU				

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2026	2027	2027
EUR/USD	1.1252	1.14	1.16	1.17
EUR/GBP	0.8425	0.86	0.87	0.87
EUR/JPY	177.63	178	180	180
GBP/USD	1.3354	1.33	1.33	1.34
USD/JPY	157.84	156	155	154
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 19th - Friday 23rd October

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Lane (Mon); Lane (Tue); Lagarde , Cipollone (Wed); Cipollone (Fri)		
	BoE Speakers:		Greene (Tue); Bailey (Wed)		
	Fed Speakers:				
Mon 19th					
Tue 20th	UK:	07:00	Unemployment Rate (August)	4.9%	4.9%
	UK:	07:00	Average Earnings (August)	(+3.9%)	(+3.8%)
			- Ex-Bonus	(+3.5%)	(+3.6%)
	UK:	07:00	HMRC Payrolls (September)	-26,000	
			- Claimant Count	+27,800	
	GER:	10:00	ZEW Economic Sentiment (October)	34.7	32.0
	US:	13:30	Housing Starts (September)	+1.28m / -2.6%	+1.31m / +2.7%
			- Building Permits	+1.40m / -2.1%	+1.39m / -0.7%
Wed 21st	UK:	07:00	CPI Inflation (September)	+0.5% (+3.1%)	+0.3% (+3.4%)
			- Core-CPI	+0.3% (+2.6%)	(+2.8%)
			- Services CPI	+0.2% (+3.4%)	(+3.6%)
	UK:	07:00	PPI Output Prices	+0.7% (+3.7%)	
			- PPI Input Prices	+0.3% (+6.1%)	
Thu 22nd	FRA:	07:45	INSEE Business Climate (October)	96.0	
	UK:	11:00	CBI Trend - Orders (October)	-9.0	
	UK:	11:00	CBI Business Optimism (Q4)	-36.0	
	US:	13:30	Initial Jobless Claims (W/e 12th October)	+199,000	+200,000
	EU-21:	15:00	Flash Consumer Confidence (October)	-16.5	-17.0
Fri 23rd	UK:	00:01	Gfk Consumer Confidence (October)	-13.0	-15.0
	JPN:	00:30	CPI Inflation (September)	(+1.9%)	
			- Core-CPI	(+1.7%)	(+2.1%)
	JPN:	01:30	Flash S&P Composite PMI (October)	52.3	
	UK:	07:00	Retail Sales (September)	+0.5% (+2.4%)	-0.2% (+1.0%)
			- Ex-Fuel	+0.6% (+2.7%)	-0.1% (+1.4%)
	SPA:	08:00	Overnight Stays (September)	48,798	
	FRA:	08:15	Flash S&P Composite PMI (October)	51.1	
	GER:	08:30	Flash S&P Composite PMI (October)	53.8	53.1
	EU-21:	09:00	Flash S&P Composite PMI (October)	53.1	52.7
			- Manufacturing / Services	52.9 / 53.0	52.5 / 52.5
	UK:	09:30	Flash S&P Composite PMI (October)	52.0	51.7
			- Manufacturing / Services	51.9 / 52.1	51.7 / 51.8
	US:	14:45	Flash S&P Composite PMI (October)	58.4	57.8
			- Manufacturing / Services	55.9 / 58.8	55.5 / 58.1
	US:	15:00	Final Uni. Michigan Consumer Sentiment (Oct)	46.3	46.3

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

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