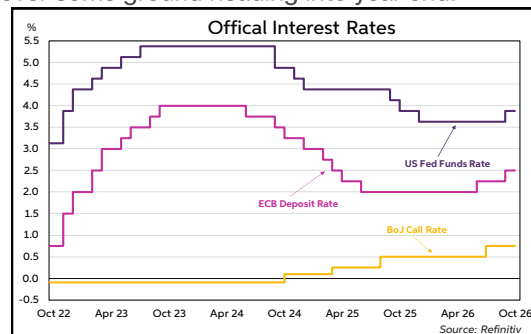


Lowest common denominator

- **Investor sentiment has retained a cautious tone over the past week.** Whilst the war in the Middle East has been in the headlines less, its on-going impact on energy prices, with Brent Crude oil rising back above \$110 per barrel, has meant that inflationary risks and the prospect of higher interest rates remain at the forefront of investors' minds. Meanwhile, concerns regarding AI valuations continue to act as a headwind to risk appetite. Indeed, recent falls on equity markets indicate growing fears that a correction in AI valuations may halt central banks from being able to tighten policy. A modest softening in US and Eurozone rate expectations has coincided with sharp falls in some AI-related stocks, despite the rise in energy prices.
- **At the same time, the rise in bond yields, especially in relation to France has been a significant feature of the action on financial markets.** Over recent days, the French 10-year sovereign yield has surged above the 5% mark, to its highest level since 2002. The French 10-year spread to its German equivalent has widened out to around 170bps, the most since November 2011. Market worries over the health of French public finances and the risk that domestic tensions could impede progress on fiscal consolidation have been the key driver behind the sell-off of French debt. Political uncertainty, with the French presidential election due next year (April-May) and the potential for a less EU-friendly occupant in the Élysée Palace, means volatility is likely to remain a characteristic of French bond trading.
- **From a currency perspective, the French fiscal and political risks as well as wider Eurozone politics (German regional election results and upcoming snap election in Spain) have created a challenging backdrop for the euro.** The EUR/USD pair has tested below the \$1.12 threshold to an 18-month low of \$1.1114 and is down nearly 5% on a year-to-date basis. The dollar has been helped by a more hawkish Fed, safe haven demand and a positive correlation to oil prices over the same period. Meanwhile, the euro has also lost ground to sterling. In level terms, EUR/GBP has fallen below the 84p handle to its lowest level since April last year. For much of this year, trading in the pair was largely uneventful, confined mostly to an 86-88p range. Aside from weakness on the part of the euro, sterling has been supported by a positive market reaction to the new Prime Minister, better than expected macro data, and a firming in UK rate expectations. Whilst the euro remains under pressure, it must be noted that both the US and UK have their own significant fiscal challenges and vulnerabilities. This means the extent of any further losses in the euro may be more modest in nature, and the euro could recover some ground heading into year end.
- **Turning to the week ahead, the main focus will be on monetary policy decisions from the ECB, the Fed and the BoJ.** The ECB hiked for the second time this year at its last meeting in September, raising the deposit rate to 2.50%. However, current market pricing indicates that the Governing Council is expected to leave rates on hold this week. Market participants will be paying close attention to the post-meeting press conference though, for any guidance on the future path of policy. Investors will also be highly attentive to any remarks regarding the aforementioned rapid rise in French yields. **Meantime, the Fed is also expected to leave rates unchanged, having hiked the Fed funds target range to 3.75-4.00% in September.** Despite some signs of broadening price pressures recently, remarks from a host Fed officials indicate that they want to see more data before raising rates further. Against this backdrop, comments from Chair Warsh will be in focus, albeit he is unlikely to offer any form of forward guidance, once again. The BoJ is also likely to leave rates unaltered.
- **On the data front, the main highlight of a busy US calendar will be core-PCE inflation for September.** Despite recent changes to the methodology used to calculate core-PCE, the data still show that inflation has been quite sticky this year, albeit it peaked at a lower level than initially estimated. Core-PCE rose to a high of 3.2% in May (previously thought to be 3.4%), before printing at 3.0% between June and August. It is projected to edge up to 3.1% in September. Elsewhere in the US, the first reading of GDP for Q3 is due. In the first half of the year, a significant jump in AI-related investment and solid consumption meant that GDP rose by 2.5% and 2.2% annualised in Q1 and Q2. A marked acceleration in growth to 3.2% is pencilled in for Q3.
- **In the Eurozone, the preliminary reading of GDP for Q3 will also feature.** Overall, the economy has shown relative resilience to the energy/inflation shock so far this year, but growth has been modest and volatile. GDP stagnated in Q1 before rising by 0.6% q/q in Q2. However, excluding distortions in the Irish GDP figures, the economy grew by 0.3% in each quarter. A moderate 0.2% q/q expansion is forecast in Q3.
- **In the UK, all eyes will be on the Budget.** A slew of small tax raising measures are expected in order to extend current freezes to fuel duties and to restore fiscal space, as the rise in UK borrowing costs and the surge in inflation have reduced the already thin budgetary headroom Chancellor Healy inherited from his predecessor. However, if tough spending decisions are postponed until next year's Spring statement, as has been hinted at, it raises the risk that the Budget may lack credibility on arrival.



	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	1.1200	1.14	1.16	1.17
EUR/GBP	0.8372	0.86	0.87	0.87
EUR/JPY	175.58	178	180	180
GBP/USD	1.3373	1.33	1.33	1.34
USD/JPY	156.76	156	155	154
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 26th - Friday 30th October

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers: BoE Speakers: Fed Speakers:	Lane (Fri)		
		UK Budget (Wednesday, 28th October)		
Mon 26th	IRE: GER: UK:	October Bank Holiday (Public Holiday) Ifo Business Climate (October) CBI Distributive Trades (October)	89.9 -55.0	90.0
Tue 27th	EU-21: US: US: US: US:	09:00 M3 Annual Money Growth (September) - Loans to Households 12:30 Durable Goods (September) - Ex-Transport 13:00 Case-Shiller House Price Index (August) 14:00 Conference Board Consumer Confidence (Oct) 14:00 New Home Sales (September)	(+3.5%) (+3.1%) -0.1% +0.2% +0.3% (+2.5%) 81.9 0.68m / +6.4%	(+3.4%) +0.6% 83.5 0.65m / -5.7%
Wed 28th	GER: US: US:	07:00 Gfk Consumer Sentiment (November) 18:00 Fed FOMC Policy Announcement - Target Fed Funds Range 18:30 Fed FOMC Post-Metting Press Conference	-30.6 3.75-4.00%	-31.0 3.75-4.00%
Thu 29th	UK: EU-21: EU-21: ITA: ITA: US: US: US: US: US: JPN: JPN: JPN:	09:30 Mortgage Approvals (September) 10:00 EC Business Climate (October) 10:00 EC Economic Sentiment (October) - Consumer / Industrial / Services 11:00 ISTAT Consumer Confidence (October) 11:00 ISTAT Business Confidence (October) 12:30 Personal Income / Consumption 12:30 PCE Prices (September) - Core-PCE Prices 12:30 GDP (Q3: Advanced Reading) 12:30 Initial Jobless Claims (w/e 19th October) 13:15 ECB Monetary Policy Announcement - Deposit Rate / Re-fi Rate 23:30 Tokyo CPI Inflation (October) - Core-CPI 23:30 Jobs/Applicants Ratio (September) 23:30 Unemployment Rate (September)	54,918 -0.06 97.9 -17.9 / -3.8 / 6.1 91.2 91.9 +0.2% / +0.9% +0.3% (+3.4%) +0.2% (+3.0%) +2.2% S.a.a.r. +194,000 2.50% / 2.65% (+2.7%) (+2.7%) 1.18 2.5%	54,250 97.8 -17.9 / -3.8 / 5.9 +0.3% / +0.5% +0.5% (+3.6%) +0.3% (+3.1%) +3.2% S.a.a.r. 2.50% / 2.65% (+2.6%) 1.18 2.5%
Fri 30th	JPN: FRA: SPA: FRA: SPA: ITA: EU-21: EU-21: ITA: US: US: GER:	BoJ Interest Rate Decision - Call Rate 06:30 GDP (Q3: Preliminary Reading) 07:00 GDP (Q3: Preliminary Reading) 07:45 Flash HICP Inflation (October) 08:00 Flash HICP Inflation (October) 09:00 GDP (Q3: Preliminary Reading) 10:00 GDP (Q3: Preliminary Reading) 10:00 Unemployment Rate (September) 10:00 Flash HICP Inflation (October) 12:30 Employment Cost Index (Q3) - Wages 13:00 Flash HICP Inflation (October)	1.25% +0.0% (+0.5%) +0.7% (+2.6%) -0.3% (+3.4%) +0.6% (+5.0%) +0.2% (+1.0%) +0.6% (+1.2%) 6.4% +2.1% (+4.2%) +0.9% +0.9% +0.6% (+3.30%)	1.25% +0.1% +0.6% +0.3% (+3.6%) +0.1% (+0.9%) +0.2% (+1.1%) 6.4% +0.5% (+4.6%) +0.8% +0.1% (+3.3%)

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

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