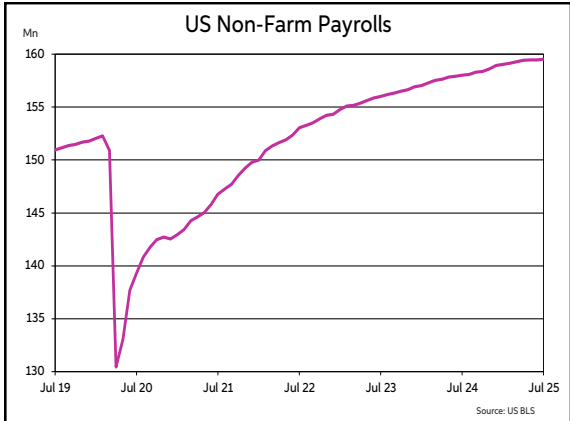


Non, je ne regrette rien

- **Following a relatively calm period in Europe of late, as attention focused on events in the US and Middle East, political risks have come to the fore once more in France.** The announcement of a confidence motion on September 8th by the prime minister François Bayrou has rattled the political system and created some tremors in European financial markets. With the minority Government at risk of collapse, attention will now focus on the ability of this or a future administration to push through the cuts needed to bring France's deficit back to a sustainable path. The confidence vote was spurred by the Prime Minister's failure to legislate for a €44bn fiscal consolidation plan which was expected to move the deficit back to 3% of GDP from the current near-6% level.
 - **What has been surprising is the relatively muted market reaction to the events in France, compared to the ructions following the announcement of parliamentary elections by President Macron in June 2024.** That saw the yield spread on the French 10-year bond to the German 10-year blow out from below 50 bps to over 80bps, and the French sovereign has continued to trade in the 70-80bps range over Germany since that time. This time, while spreads have widened, the French 10-year yield is only 8bps higher following Bayrou's announcement. The decline in equity markets has also been somewhat contained, with the CAC index falling 2.5% on the week, suggesting investors have taken a sanguine view of the current impasse, perhaps betting the political system will cobble together a working majority to pass the necessary cuts. Investors might also be betting the ECB would, in any event, prevent further widening in spreads or contagion through its Transmission Protection Instrument, à la the 2022 episode in the Italian bond market. It's worth noting that the French 10-year yield has moved above its Greek counterpart in recent weeks.
 - **Nonetheless, it is unlikely a future administration in this parliament will have the numbers to push through the necessary cuts, which could bring fiscal vulnerabilities into sharper focus for investors in the coming months.** A fresh round of elections could also crystallise a sharper move in French and European asset prices, with the likelihood of a more populist French government based on current political polling, increasing domestic fiscal risks. This scenario could also raise broader geopolitical risks around European coordination on infrastructure, defence, and the necessary economic reforms to boost economic growth advocated in the 2024 Draghi Report. This could also create an unhelpful backdrop for the euro in the months ahead.
 - **Looking ahead, the main highlight of a holiday shortened week in the US will be the labour market report for August.** In July, payrolls growth was weaker than anticipated at 73k. Furthermore, the July release also contained sharp downward revisions for prior months, which suggested that the US labour market was not as strong as previously thought. Against this backdrop, Fed officials, including Chair Powell, have sounded more dovish on the rates outlook and market rate expectations have softened markedly. Indeed, current pricing suggests the market thinks there is around 90% chance of a 25bps rate cut at the next meeting, which concludes on September 17th. Thus, another weak report will likely seal expectations of a near-term Fed rate cut. The consensus is for payrolls to expand by 70k in the August, while the unemployment rate is projected to rise to 4.3% from 4.2%. Average earnings growth is forecast to slow to +3.7% y/y from +3.9% y/y also.
- 

US Non-Farm Payrolls

Source: US BLS
- **In terms of some other US labour market statistics, JOLTS job openings figures for July will feature.** In contrast to the payrolls data, job openings have been relatively steady in recent months. There were just over 7.4m in June, which is broadly in the middle of the 7.2-7.7m range registered so far this year. Elsewhere, the manufacturing and non-manufacturing ISMs for August are due. Both sectors are expected to register some improvement, albeit manufacturing is set to remain in contraction territory.
 - **In the Eurozone, an update on the labour market is also due.** The bloc-wide unemployment rate is forecast to remain at an all-time low of 6.2% for a fourth consecutive month in July. However, the main release of note in the Eurozone will be the flash reading of HICP inflation for August. Encouragingly, it is anticipated that the headline rate stayed at 2.0% for a third month in-a-row in August, while the core rate is set to edge down to 2.2% from 2.3%. Regarding some other Eurozone data, retail sales are projected to stagnate in July.
 - **Meanwhile, the main UK release will be the delayed retail sales report for July.** However, remarks from Governor Bailey and others at the Treasury Select Committee will likely warrant closer attention.

	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.00	4.00	3.75	3.50
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
EUR/USD	1.1695	1.18	1.19	1.20
EUR/GBP	0.8666	0.86	0.85	0.84
EUR/JPY	171.81	170	170	168
GBP/USD	1.3492	1.37	1.40	1.43
USD/JPY	146.90	144	143	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde (Mon); Cipollone (Thu)		
	BoE Speakers:		Bailey , Lombardelli, Taylor, Green (Wed)		
	Fed Speakers:		Williams (Thu)		
Mon 1st	US:		Labour Day (Market Holiday)		
	IRE:	01:01	AIB Manufacturing PMI (August)	53.2	
	SPA:	08:00	International Tourist Arrivals (July)	12.9m	
	EU-20:	09:00	Final HCOB Manufacturing PMI (August)	49.8	49.8
	ITA:	09:00	Unemployment Rate (July)	6.3%	
	UK:	09:30	Final S&P Manufacturing PMI (August)	47.3	47.3
	EU-20:	10:00	Unemployment Rate (July)	6.2%	6.2%
	IRE:	11:00	Flash HICP Inflation (August)	+0.2% (+1.6%)	
Tue 2nd	EU-20:	10:00	Flash HICP Inflation (August)	(+2.0%)	(+2.0%)
			- Ex-Food & Energy	(+2.4%)	
			- Ex-Food, Energy, Alcohol and Tobacco	(+2.3%)	(+2.2%)
	US:	14:45	Final S&P Manufacturing PMI (August)	53.3	53.3
	US:	15:00	ISM Manufacturing PMI (August)	48.0	49.0
Wed 3rd	IRE:	01:01	AIB Services PMI (August)	50.9	
	JPN:	01:30	Final Jibun Composite PMI (August)	51.9	
	ITA:	08:45	Final HCOB Composite PMI (August)	51.5	51.5
	FRA:	08:50	Final HCOB Composite PMI (August)	49.8	49.8
	GER:	08:55	Final HCOB Composite PMI (August)	50.9	50.9
	EU-20:	09:00	Final HCOB Composite PMI (August)	51.1	51.1
			- Services PMI	50.7	50.7
	EU-20:	10:00	Producer Prices (July)	+0.8% (+0.6%)	+0.2% (+0.1%)
	US:	15:00	JOLTS Job Openings (July)	7.4m	
	IRE:	16:30	Exchequer Returns (August 2025)	Aug'24: +€3.8bn	
Thu 4th	EU-20:	10:00	Retail Sales (July)	+0.3% (+3.1%)	+0.0% (+2.4%)
	IRE:	11:00	National Accounts (Q2 2025)		
			- GDP	Flash: -1.0% (+12.5%)	
	US:	13:15	ADP Employment Estimate (August)	104,000	+65,00
	US:	13:30	Initial Jobless Claims (w/e 25th Aug)	229,000	
	US:	14:45	Final S&P Composite PMI	55.4	55.4
			- Services PMI	55.4	55.4
	US:	15:00	ISM Non-Manufacturing PMI (August)	50.1	51.0
Fri 5th	GER:	07:00	Industrial Orders	-1.0%	+0.5%
	UK:	07:00	Retail Sales (July)	+0.9% (+1.7%)	+0.2% (+1.3%)
			-Ex-Fuel	+0.6% (+1.8%)	+0.5% (+1.2%)
	EU-20:	10:00	GDP (Q2: Revised Reading)	+0.1% (+1.4%)	+0.1% (+1.4%)
	IRE:	11:00	Unemployment Rate (August)	4.9%	
	US:	13:30	Non-Farm Payrolls (August)	+73,000	+70,000
			- Unemployment Rate	4.2%	4.3%
			- Average Earnings	+0.3% (+3.9%)	+0.3% (+3.7%)

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

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