



## **Amidst the political noise, central bankers chart course for monetary policy**

While political events dominated the news agenda, last week's ECB forum in Sintra gave important hints towards near-term monetary policy. In her opening remarks at the forum, ECB President Lagarde ruled out a further cut at its July meeting, stating "it will take time for us to gather sufficient data to be certain that the risks of above-target inflation have passed,". A July cut was already ruled out by markets following the ECB's 'hawkish cut' in June, and further solidified by the minutes of that meeting, which showed disagreement on whether to cut was even necessary in June. However, despite Lagarde's cautious outlook, markets are still pricing in nearly two further cuts by end-2024, beginning in September. While inflation remains above target, recent Eurozone data signal sagging growth momentum in the currency bloc, including exceptionally weak manufacturing PMI surveys for June.

US Federal Reserve Chair Powell also gave remarks at Sintra, widely received as more dovish in nature than his recent comments. While Powell said the Fed needs more confidence inflation is moving towards target before cutting rates; he also noted the risks of waiting too long stating that if the labour market unexpectedly weakens, "that would also cause us to act". This adds to growing evidence that the Fed will cut rates in the coming months.

Indeed, last week's minutes of the June Fed meeting highlighted a growing consensus that a disinflationary trend has now re-emerged in the US, following a plateauing in inflation at the beginning



of 2024. In particular, the minutes noted that a "number of developments in the product and labour markets supported the judgment that price pressures were diminishing". In this context, recent labour market data suggests some softening in the jobs market in recent months. Initial jobless claims have been grinding higher in recent weeks, while the June US payrolls data revealed a significant downward revision new jobs, more than offsetting the strong June figure. Unemployment also ticked higher in June to 4.1% from 4%, with the report adding to recent evidence of moderating growth more generally in the US economy.

David McNamara

Chief Economist, AIB

AIB Customer Treasury Services  
DUBLIN / CORK  
[aib.ie/fxcentre](http://aib.ie/fxcentre)

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Customer Treasury Services GB  
LONDON  
[aibgb.co.uk/fxcentre](http://aibgb.co.uk/fxcentre)

Economic Research Unit  
[AIBeconomics.unit@aib.ie](mailto:AIBeconomics.unit@aib.ie)  
Tel: 353-1-6600311

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