AZETS

THE TREASURY HUB
Markets Bulletin

Q4 2024 Review/2025 Outlook

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1. Executive Summary

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1.1 Introduction

Welcome to the final 2024 TREASURY HUB Markets Bulletin.

As you are aware, these bulletins cover quite a wide range of topics and are a comprehensive review of all the various interest rate, foreign exchange, commodity and stock markets. Table 1 across sets out the 2024 movement in a number of key metrics. What is notable is both the continuing increase in value of various asset classes and the gradual easing in longer-term interest rates has stalled.

The focus of markets over 2024 continued to be on inflation and its impact on the expected timing of interest rate cuts. ECB finally announced its first rate cut in June and followed through with another three cuts by year end but the longer-term rates have been more volatile in a number of jurisdictions.

- 3-month Euribor fell over the year as expected in line with the actual (and anticipated) cuts in the ECB Base Rate. The ECB Deposit Rate was cut from 4.00% to 3.00% and, with further rate cuts expected in 2025, 3-month Euribor ended the year just below 2.75%
- EUR, UK and US yield curves moved from inverted (i.e. rates decline after 1 year) to flat as the year progressed indicating the bottom of the interest rate cycle now being anticipated for 2025
- Oil prices may have been largely unchanged between the start and end of the year but that hides a range from $69 to $92 per Bbl over the course of the year.

1.2 Markets in a Table: what's up and what's down?

Table 1. Key Metric Movements: 2024

Heading	Metric	YTD move	From	To
Interest	3-m euribor	-1.22%	3.93%	2.71%
Interest	EUR 3-year	-0.36%	2.55%	2.19%
Interest	GBP 3-year	0.47%	3.92%	4.39%
Interest	USD 3-year	0.30%	4.01%	4.31%
FX	EUR/GBP	-4.82%	0.8672	0.8273
FX	EUR/USD	-6.66%	1.1042	1.0353
Equities	ISEQ	11.38%	8760	9757
Equities	FTSE 100	5.69%	7733	8173
Equities	Nasdaq	26.07%	16667	21012
Commodities	Brent Crude	-3.55%	77.39	74.64
Commodities	Carbon	-9.06%	78	70.95
Commodities	Gold	26.29%	2077	2623
Inflation	EU Core	-0.60%	3.30%	2.70%
Gilts	IE 10-yr	0.24%	2.41%	2.65%
Gilts	GB 10-yr	0.97%	3.60%	4.57%
Gilts	US 10-yr	0.56%	4.02%	4.58%

Please note that the % moves are in green if the metric has moved upwards and in red if it has moved downwards. It is NOT a statement as to whether this is a positive or negative move as one could be a borrower or depositor, a seller or buyer of currency, etc. Also, the % move for interest rates is in absolute terms while for currency and equities it is expressed in relative terms. **PLEASE NOTE THAT INTEREST RATE TRENDS ARE FROM A DEPOSITOR PERSPECTIVE.**

- Gold had an amazing run and rose by over 26% in 2024 apparently due to both Central Banks increasing their holdings and a switch by the Chinese out of US bonds and stocks
- Stock markets were broadly up over the year despite a couple of periods of retracement with the Nasdaq continuing to outperform the rest. Nvidia almost trebled in share price over the year
- Government borrowing (gilt) rates bounced around a lot and the yields on the three 10-year gilts that we monitor above actually increased in 2024
- GBP has remained stronger than probably anticipated by most, while USD had a very strong last quarter dropping from EUR/USD1.1200 to EUR/USD1.0350.

1.2 Forward-looking Indices

Forward-looking indictors known as Purchasing Manager Indices or PMIs are useful to monitor the economic outlook for Ireland and the UK. Readings above 50 indicate expansion while below 50 denote contraction.

- ROI manufacturing has remained around the 50 mark for 6 months while the Construction reading has followed a similar pattern with only Services staying in expansion territory
- In the UK, two of the three readings continue to remain in positive territory and the trends in general have been favourable for most of the past 12 months. Overall, the UK outlook seems to be in better shape than ROI at the moment.

Table 2. Irish and UK PMI readings

	Ireland	UK
Manufacturing PMI	**49.1**	**47.0**
Services PMI	**57.1**	**51.1**
Construction PMI	**47.5**	**53.3**

1.3 Inflation

Table 3. Selected Inflation Rates

	CPI/Core Inflation
ROI	**2.00%**
EUROZONE	**2.70%**
UK	**3.50%**
US	**3.20%**

Note: Core figures exclude energy, mortgages and food.

Irish core rate had a very favourable trend over 2024 starting the year at 5.34% but finishing it with a November reading of 2%.

Eurozone core inflation which peaked at 5.7% in March 2023 has been below 3% since March 2024 but has held up at 2.7% for the past four months up to and including December. The ECB expect headline inflation to average 2.20% in 2025.

UK core inflation bottomed out at 3.2% in September and has risen over the past two months to 3.6%.

Finally US core inflation rate declined slowly over H1 2024 but has remained in or around 3.30% for the past 6 months which is well above the target 2% rate**.**

See Section 3 for further comment.

2. Foreign Exchange, Oil & Carbon

2.1 EUR/USD

- Graph 1 looks at the EUR/USD rate trend over the past 12 months
- The high/low range in 2024 was 9.68% which is the third narrowest over the past 11 years. In fact, prior to Q4, the range was closer to 6% for the year to date
- A brief period of weakness coincided with a market view that US interest rates were likely to fall more quickly than previously estimated but this was quickly revised in Q4 as markets realized that rate cuts in 2025 were not likely to continue at previously expected rates with some talking about a possible hike by end 2025
- This resulted in the rate moving from EU/USD1.1176 at the end of September to EUR/USD1.0353 by year end
- The 2024 average rate at EUR/USD1.0823 was largely unchanged versus the 2023 figure of EUR/USD1.0821
- How it behaves in 2025 depends a lot on how the Trump administration behaves with respect to tariffs and trade.

Graph 1. EUR/USD: 12-month trend

2.2 EUR/GBP

- The high/low range for 2024 was 5.63%, comparable to the previous year
- But the average of EUR/GBP0.8468 is the strongest (lowest) it has been since 2016, the year of the Brexit vote
- GBP continued to be supported by relatively higher (than EUR) interest rates
- And, with a less than favourable economic Eurozone outlook, especially in Germany, 2025 doesn't look any better for EUR.

- As the graph below indicates, the exchange rate has been in a downward trend i.e. strengthening GBP since Q3, easing from EUR/GBP0.8610 to EUR/GBP0.8230 in December
- The 2024 average rate being the lowest that it has been since 2016 which was the year of the Brexit vote in itself is of significance as GBP has been in the (relative) doldrums since that vote. It may also signify a likely pro-Europe stance under a Labour government which would be good for UK trade
- And with UK interest rates likely to remain higher than EUR interest rates, GBP is expected to be supported in 2025.

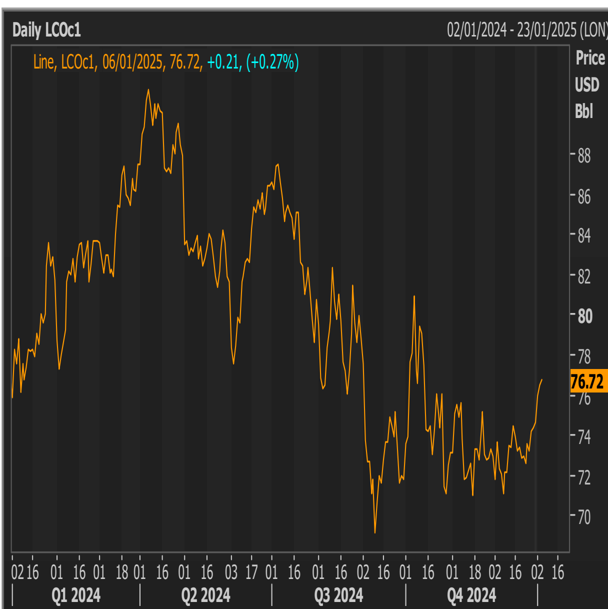
Graph 2. EUR/GBP: 12-month trend

2.3 OIL & CARBON

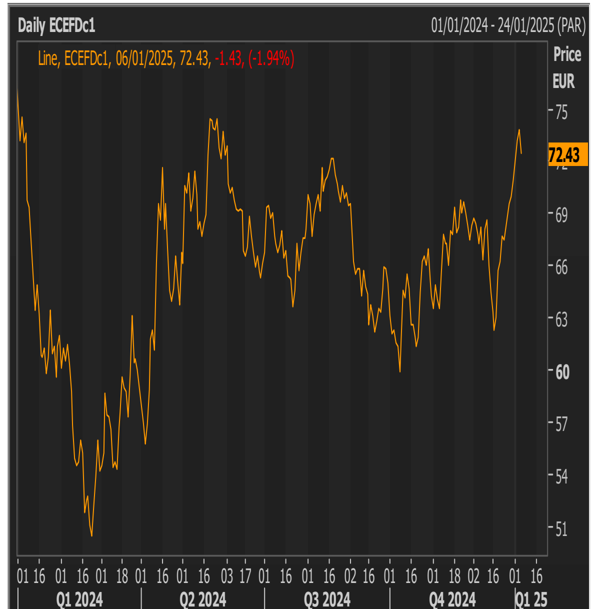
Brent Crude had quite a volatile year with prices being driven by demand considerations (market expectation of faster/slowing growth) and geo-political tensions. As the price of oil is in USD, the cost of crude in EUR has increased due to weaker EUR. This also has a negative impact on inflation. The world will continue to watch Chinese demand as it is such a material driver of oil demand.

The price of Carbon was very erratic over the past few years but it stabilised into a narrower range since Q2 2024.

Graph 3. Brent Crude: 2024 trend



Graph 4. Carbon: 2024 trend



3. Interest and Economic Review

3.1 EUR Short-term Rates

Interest rates dominated market events and commentary over 2024 as they have done for all of 2023. The Euribor rate that we monitor for the purposes of this bulletin (as it is the most relevant one for variable rate debt) is the 3-month rate.

Key Observations

- As we have noted before, the 3-month Euribor tracks the ECB Base Deposit Rate very tightly. Therefore, the former changes every day while the latter only changes on ECB meeting dates, Euribor tends to anticipate the ECB move a few weeks in advance
- The graph below shows 3-month Euribor is now down to 2.73% and this is where we expect the ECB Deposit Rate to be in early 2025
- The market view of where the ECB Base Deposit Rate will bottom out continues to ebb between 2.00% and 2.25%
- Therefore, we are looking at between 3 and 4 cuts in 2025, although the stubborn nature of Eurozone inflation as highlighted in Section 1 could continue to hold back the number of cuts
- German economic outlook is poor and this may also (unofficially) impact on ECB thinking.

Graph 5. 3-month Euribor: 12-month trend

3.2 EUR Medium-term Rates

- We always look at 3-year swap rates as they are a better indicator of the future direction of interest rates
- The 3-year fixed rate (before margin) dropped from 3.21% in June to a low of 2% at the start of December
- The trend was driven by falling shorter-term rates and further forecast rate cuts in 2025.

Graph 6. EUR 3-year swaps: 12-month trend

3.3 Summary

- While movements in short-term rates were as expected in the quarter, the scale of the reduction in the longer-term rates was surprising. The reversal that arose since puts the ECB Deposit Base Rate bottoming out at 2.25%
- The timing of rate cuts in 2025 remains open for debate
- The interest rate curve is broadly flat now as there is very little difference between 18-month and 7-year fixed rates (before margin)
- All of this points to the bottom of the current interest rate cycle arising in 2025.

3.4 UK and US Interest Rates

- **Graph 7 below shows that the UK 3-year rate has behaved in a somewhat similar fashion to EUR interest rates up to Q3 but with a sharper bounce back since**
- **Markets got too enthusiastic about the pace of rate cuts and there appears to be an upward revision again in the past 2 weeks.**

Graph 7. GBP 3-year swaps: 12-month trend

Graph 8. USD 3-year swap rates: 12-month trend

- Since US longer-term rates started to climb in 2021 in the aftermath of Covid from close to zero, their ascent was sharp to mid 2022 and they have been quite volatile since 2023
- 2024 started with some talking about seven or eight rate cuts and this reduced very quickly as inflation remained high and the economy continued to perform well despite various potential headwinds
- And as mentioned in Section 1, the core inflation rate has stalled around the 3.30% mark for the past 6 months
- Unemployment rose from 3.7% in January 2024 to 4.2% in November with the next reading due on January 10th
- Donald Trump is inaugurated on January 20th with a stronger mandate than in 2016 and Republicans now hold both the Senate and the House of Representatives
- Economic growth has been positive every quarter since Q1 2022
- All of these indicate that the US could be heading for a soft rather than hard landing at worst although there are also risks on the horizon
- But the worlds awaits the arrival of “Maganomics” with all its inherent apparent contradictions. Higher tariffs will likely lead to a stronger dollar and higher inflation…which would keep interest rates high and probably hurt the stock market
- China has been subject to fresh stimulus but there is a large property and debt overhang there. However, it has also become much more innovative and leads the world in EV technology
- Meanwhile Europe and Germany in particular is facing the consequences of an ageing population, poor innovation and declining productivity – none of which will be easily reversed in the short-term
- All of which leads to increasingly nationalistic economic and industrial policy
- And, as we have referenced numerous times here, the US has not run a budget surplus since 2001. This is not sustainable in the long run, despite the contrary view of many in the US.

3.5 Summary

- **Yield curves (which graph all interest rates from short to long-term) are flattening and this, in turn, indicates that the financial markets now see the end of the rate cutting cycle arising over the next 12 months or so in the Eurozone, UK and US**
- **The markets remain uncertain as to the timing and scale of the remaining interest rate cuts in all main economies with general thoughts being more pessimistic i.e. fewer cuts**
- **But current forward/forward annual rates show the bottom of the cycle as being 2.30% in the Eurozone, 4.40% in the US and close to 4.25% in the UK**
- **Manufacturing PMI ended the year in negative territory in the US, UK and Eurozone**
- **These remain subject to change as markets continue to re-evaluate data**
- **Geo-political events will be critical in 2025: Trump takes power, Trudeau has just resigned, there is an election now in Germany and the Ukrainian and Palestinian wars continue but for how long more? Very difficult to make forecasts against that backdrop.**

4. Wealth Management

4.1 Gold

Graph 9. Gold prices: 2024 trend

Gold is the asset class that continues to surprise in its ascent. It went from USD2,077 at the start of 2024 to USD2,623 by year end having hit an all-time high of USD2,786 along the way. Central banks appear to have increased their holding as have the Chinese. And it is generally seen as a hedge against slowing economies so that could keep it attractive in 2025.
Highest commodity price increases in 2024 were coffee, cocoa and orange juice.

4.3 Equity Markets

Equity markets have had a very solid 2024:

- ISEQ up 11.49%
- FTSE up 5.7%
- NASDAQ up 26.1%.

Graph 10. ISEQ: 2024 trend

Graph 11. FTSE: 2024 trend

Graph 12. NASDAQ: 2024 trend

US stock market PE ratios (ratio of the average share price to the earnings per share) continue to increase. The Nasdaq currently trades at a P/E of 46.0 compared to a historical average of 30.23 times.

We have flagged this before and await a correction at some stage but Trump sees stock market performance as a crucial indicator of the success of his government so markets expect levels to hold up for now.

5. 2025 Outlook

Opinions below are against what is possibly the most uncertain geo-political backdrop in many years, even decades.

5.1 Interest Rates

We called the first ECB rate cut as being May/June and not March this time last year and it materialized in June. Markets talking about ECB bottom of cycle to be 2.00% to 2.25% - so between 3 and 4 rate cuts. We think Eurozone is not in good shape and could do with four cuts…but the ECB mandate does not extend to economic growth. For now, we think that a poor economic outlook will have a now, and we think they will cut four times. Most pessimistic view is 5 cuts based on EU lagging the rest of the major economies.

US or UK interest rates unlikely to be cut to the same extent so that will also support their currencies (see below).

5.2 FX Rates

These are always very difficult to forecast given the relative volatility of them and with geo-political events having a major impact and these in turn being very uncertain, it makes forecasting currencies even more challenging.

Graph 13. EUR/GBP 10-year trend

As outlined above Eurozone outlook is not good and with interest rates in both UK and US likely to remain significantly higher than in the Eurozone, on balance we do not see EUR strength in the short term.

EUR/GBP ended 2024 quite strong, back at levels seen in 2016. For now, a range of 80p to 85p looks more likely.

Obviously, the actions of President Trump will impact on USD – other than the sudden strengthening of USD in late 2023, current levels have not been seen over the past 20 years. US forecast economic growth for 2025 is much stronger than the EU equivalent. Europe also has a lot of competing financial demands of a structural nature (see below) which will also hold it back. And with US interest rates higher than in the Eurozone and likely to be slower to come down, the interest rate differential will be maintained and probably widened in 2025 which, again, should be USD-supportive. Break of parity looks possible in the short-term based on the long-term trend in Graph 14 overleaf.

There are many concerns about the rhetoric coming from the Trump camp (e.g. buy Greenland, Canada to become 51st state, "acquire" the Panama Canal), but there is a scenario where these are all part of his dealmaking mentality and matters settle down: peace deals done in Ukraine and Middle East, US economy takes off again, pressure comes off energy prices, etc. Problem is that there are long-term problems in all major economies including the US AND ALL THAT HAPPENS IS A SHORT-TERM BOOST WHILE THE UNDERLYING LONG-TERM ISSUES GET WORSE AT THE SAME TIME.

5. 2025 Outlook

Graph 14. EUR/USD 20-year trend

5.3 Irish Economic Outlook

The previous bulletin summarised forecast key variables as per the Department of Finance ("DOF") underpinning the recent Budget. As mentioned then, the one risk (and standout figure for the wrong reasons) is the scale of the one-off corporation tax contributions. The actual surplus reported this week was €12.7bn including the Apple money. Excluding it the surplus was €1.8billion. BUT DOF STATED THAT THE PUBLIC FINANCES WITHOUT (THEIR ESTIMATE OF) WINDFALL TAXES WOULD BE IN DEFICIT TO THE TUNE OF €6.3BILLION IN 2024 AND €5.7BILLION IN 2025. Furthermore, government debt is forecast to increase from €217bn at end 2024 to €234bn by 2030 despite forecast surpluses for each year.

In addition to the above:
- **Infrastructure spend is too low – hospitals, schools, etc. need to catch up**
- **Population continues to grow but also age**
- **This has implications for hospital capacity and social welfare spend**
- **Productivity is arguably too low as a result**
- **1/3 of all adults are not available for work – our labour force participation rate is 66.6% compared to 75.6% in the Euro area, 78.3% in the UK and 80.3% in Germany (and even they are lagging on productivity)**
- **The banking industry is providing less choice (and, in some cases, services) than it did 20 years ago**
- **Many sectors re dominated by 3 players (e.g. banking, insurance, telecoms) creating oligolies with little price competition resulting in higher prices and many would say falling customer service**
- **High dependence on imported energy despite huge natural resources potential such as wind energy**
- **Prospect of a large fine for failing to meet EU carbon emissions reductions (IFAC put it at up to €20billion thereby wasting won't the Apple one-off money and costing a few national children's hospitals when we need to spend more on infrastructure)**
- **Constant overspend on public (day-to-day) expenditure**
- **Shortage of key skills that is likely to worsen e.g. doctors, nurses.**

If the country was a business, it would require immediate and drastic action to avoid falling into financial difficulties again. Ireland is not an outlier from many of the above listed problems, but we are smaller and should be more adaptable plus it also implies that other EU countries won't be able to help us given the scale of their own issues.

There is a strong argument that the country needs a paradigm shift in how it positions itself for the next 30 years given so many long-term and structural challenges. But, politically, it would require tough short-term decisions for longer-term benefit and that does not appeal to most politicians.

All of this leads to a conclusion for business to be adaptable, stay lean, strengthen your balance sheet and focus on scenario planning in your strategic plans given the fluidity of so many of the macroeconomic and geo-political threats that now exist.