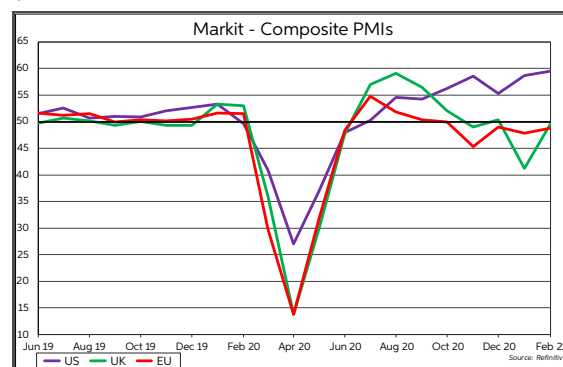


When Doves Cry

- **The latest round of central bank monetary meetings saw policymakers try to soothe market fears that rate tightening could commence as early as next year in some major economies.** Central bankers are strongly of the view that the rise in CPI rates that is expected over the course of 2021 is not the start of an inflationary spiral. Rather the pick-up is coming from very low levels and they expect it will see inflation return to around its 2% target level. Much of the rise in inflation is due to base effects, such as an unwinding of the sharp fall in energy prices and cuts in VAT rates seen in 2020. Thus, central bankers view the rise as transitory. Indeed, in the Eurozone, the ECB sees inflation dropping back again to well below its target level in 2022 and 2023. Central bankers also point to the considerable slack in labour markets as keeping inflation in check over the next few years.
- **The latest set of projections from the FOMC show that it expects to keep US rates on hold through until the end of 2023.** Markets, though, are not convinced with futures contracts pricing in that the Fed will start hiking rates from the second half of next year. Central banks, though, have been increasing both their growth and inflation forecasts. This is what markets are paying attention to and not the accompanying assurances by central bankers that the forecast upgrades do not impact the outlook for monetary policy. Thus, bond yields continued to rise and curves steepen in the aftermath of the recent central bank meetings. This was most notable in the US, where ten year Treasury yields have climbed to 1.7% from 0.9% at the start of the year.
- **Market patience is likely to continue to be tested over the remainder of the year.** The \$1.9 trillion Biden fiscal stimulus package combined with the rapid roll out of vaccines, should see the US economy print exceptionally strong economic data from next month on. The Fed has jacked up its end year GDP growth forecast to 6.5% from 4.2% previously. Inflation is now projected to rise to near 2.5%. The unemployment rate is forecast to fall to below 4% by end 2022. Meanwhile, US house prices and stock markets have been rising strongly since last summer. Markets are going to take some convincing that the Fed will hold off on rate hikes until 2024 in these circumstances. Indeed, markets could become increasingly concerned that Fed policy inaction risks letting the inflation genie out of the bottle. Curves would only steepen further in this environment.
- **The upward move in Eurozone yields has been much less pronounced as the roll out of vaccines there has been slow to date, there has been much less fiscal stimulus, the recovery will be more gradual than elsewhere and inflation is expected to be well below target in 2022 and 2023.** Thus, the market believes that Eurozone rate hikes are still a long way off, while the ECB has also stepped up the pace of asset purchases to curtail the rise in long-term yields. Nevertheless, it will be hard for Eurozone bonds to resist the pull of gravity if yields continue to rise elsewhere.
- **Turning to the week ahead, the highlight will be the flash PMI data for March from the US, UK and Eurozone.** In the US, both the manufacturing and services PMIs printed well into expansion territory in February (at 58.6 and 59.8 respectively). The forecast is for both indices to improve on last month's already strong readings. Meanwhile in the UK, the consensus is for the services index to move above the 50 threshold, to 51 from 49.5, while the manufacturing index is projected to be broadly unchanged at 55. In the Eurozone the divergence between sectors is set to remain very wide, as on-going containment measures continue to more adversely impact the services sector. Both indices are expected to register only modest changes, at 57.9 (manufacturing) and 46.0 (services) in March
- **In terms of other data, in the US,** the Fed's preferred measure of inflation core-PCE is forecast to be steady at 1.5%. Inflation is likely to move higher over the coming months, though this is likely to prove transitory. Meanwhile, personal consumption and income indicators for February should fall back after big increases in January. Existing home sales, new sales and durable goods orders for February are also due.
- **Elsewhere in the Eurozone this week, a host of national survey data also feature.** The German Ifo, French INSEE and Italian ISTAT measures of business sentiment are all forecast to edge higher in March, but to remain below their pre-pandemic levels. Eurozone and German measures of consumer confidence for March are also due.
- **Meanwhile in the UK, aside from the aforementioned PMIs, there is a packed calendar of 'hard' data. This includes a raft of labour market data for January and February.** The government furlough scheme has so far sheltered the jobs market from the full fallout of the pandemic. The jobless rate is projected to edge slightly higher, to 5.2%, in January. Retail sales and inflation (CPI and PPI) for February complete a busy UK release schedule. Retail sales are expected to recover some ground after a large fall in January as the sector went into lockdown. Inflation should be broadly stable.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2021	2021	2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
BoJ OCR	-0.10	-0.10	-0.10	-0.10
Current Rates Reuters, Forecasts AIB's ERU				

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2021	2021	2021
EUR/USD	1.1895	1.20	1.22	1.24
EUR/GBP	0.8581	0.87	0.88	0.88
EUR/JPY	129.45	128	128	128
GBP/USD	1.3862	1.38	1.39	1.41
USD/JPY	108.81	107	105	103
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 22nd - Friday 26th March

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers: Schnabel (Mon); Enria, McCaul (Tue); Lagarde (Wed); Schnabel, deGuindos (Thu); Lagarde (Fri) BoE Speakers: Cunliffe, Bailey (Tue); Bailey (Thu); Fed Speakers: Powell , Barkin, Quarles, Bowman(Mon); Powell , Bullard, Brainard (Tue); Williams, Daly, Evans (Wed); Williams, Clarida, Bostic, Evans (Thu);				
Mon 22nd	US:	14:00	Existing Home Sales (February)	6.69m / +0.6%	6.5m / -3.0%
Tue 23rd	UK:	07:00	ILO Employment (January) - Unemployment Rate	-114,000 5.1%	5.2%
	UK:	07:00	Average Weekly Earnings (January) - Ex-Bonus	(+4.7%) (+4.1%)	(+5.0%) (+4.4%)
	UK:	07:00	Claimant Count (February)	-20,000	
	US:	14:00	New Home Sales (February)	+0.92m / +4.3%	+0.88m / -4.9%
Wed 24th	JPN:	00:30	Flash Jibun Manufacturing PMI (March)	51.4	
	UK:	07:00	CPI (February) - Core	-0.2% (+0.7%) -0.5% (+1.4%)	+0.5% (+0.8%) (+1.4%)
	UK:	07:00	PPI Output Prices (February) - Input Prices	+0.4% (-0.2%) +0.7% (+1.3%)	
	FRA:	08:15	Flash Markit Composite PMI (March)	47.0	47.0
	GER:	08:30	Flash Markit Composite PMI (March)	51.1	51.8
	EU-19:	09:00	Flash Markit Composite PMI (March) - Manufacturing / Services	48.8 57.9 / 45.7	49.1 57.9 / 46.0
	UK:	09:30	Flash CIPS / Markit Composite PMI (March) - Manufacturing / Services	49.6 55.1 / 49.5	50.6 55.0 / 51.0
	US:	12:30	Durable Goods (February) - Ex-Transport	+3.4% +1.3%	+1.0% +0.5%
	US:	13:45	Flash Markit Composite PMI (March) - Manufacturing / Services	59.5 58.6 / 59.8	60.0 59.4 / 60.2
	EU-19:	15:00	Flash Consumer Confidence (March)	-14.8	-14.3
Thurs 25th	GER:	07:00	Gfk Consumer Sentiment (April)	-12.9	-11.8
	FRA:	07:45	INSEE Business Climate (March)	97	
	EU-19:	10:00	M3 Money Supply (February)	(+12.5%)	(+12.5%)
	UK:	11:00	CBI Distributive Trades (March)	-45	
	US:	12:30	GDP (Q4:Final Reading)	+4.1% s.a.a.r	+4.1% s.a.a.r
	US:	12:30	Initial Jobless Claims (15 March w/e)	770,000	
Fri 26th	UK:	07:00	Retail Sales (February) - Ex- Fuel	-8.2% (-5.9%) -8.8% (-3.8%)	+2.2% (-3.6%) +2.0% (-1.2%)
	GER:	09:00	Ifo Business Climate (March)	92.4	93.0
	ITA:	09:00	ISTAT Business Confidence	99.0	
	ITA:	09:00	Consumer Confidence (March)	101.4	
	US:	13:30	Personal Income / Consumption (February) - Core PCE Inflation	+10.0% / +2.4% +0.3% (+1.5%)	-7.0% / -0.6% +0.1% / (+1.5%)
	US:	14:00	Final Michigan Consumer Sentiment (March)	83.0	83.5

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

All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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