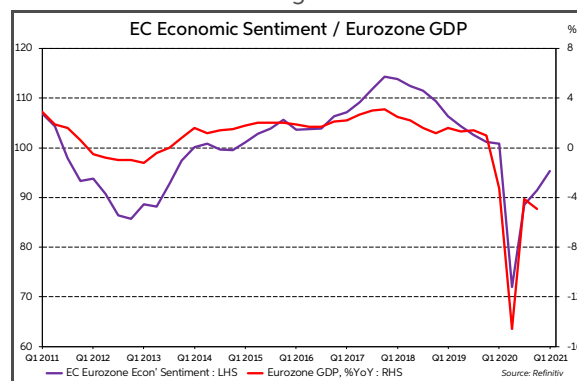


## Locking In

- **Probably the most perplexing move in financial markets this month has been the marked decline in long term US interest rates despite a slew of very upbeat economic data.** Labour market stats, retail sales and housing data have all been extremely strong, with inflation moving higher also. Yet ten year Treasury yields have fallen by over 20bps, moving down towards 1.5%. Short-dated US yields are little changed, with markets still discounting that the Fed will start hiking rates before the end of 2022. However, futures contracts show markets have scaled back their expectations on the pace of tightening. Three month rates are now seen as rising to just under 2% by end 2025, whereas at the start of April they were seen as reaching to 2.3% by then.
- **It may well be that the market had become oversold given the scale of the upward move in long term rates during Q1.** Investors, including from overseas, may also have been attracted by the relatively high level that US bond yields reached at end March. The yield curve had steepened considerably, with the spread between two and ten year bonds widening out to almost 160bps, an attractive carry trade. This does not mean that the sell-off in US bonds is over. Data are likely to stay strong over the coming months and any sign that the Fed is considering tapering its large QE bond purchase programme could cause another bout of market indigestion. Indeed, most forecasters believe we have yet to see the high in long term US interest rates this year.
- **Quite surprisingly, Eurozone bonds have not followed US yields lower. Indeed, German bund yields have moved higher in the past fortnight, while yields in some peripheral markets have risen by around 10bps so far this month.** This is in spite of some acceleration in the pace of bond purchases by the ECB under its PEPP. However, yield levels are much lower in the Eurozone than the US, with ten year yields near zero or negative in many markets. The curve is not that steep either, with a pick-up of circa 45bps between benchmark two and ten year yields. Neither is there anything like the same scope for a scaling back of rate hike expectations. The ECB is seen as keeping rates on hold until 2024 and futures contracts show three month money rates remaining negative until end 2025. Nonetheless, it is still quite notable that the trend has been upwards recently in Eurozone yields at a time when US yields were moving appreciably lower.
- **One factor behind this may be the pick-up in issuance at the long end of sovereign debt markets in Europe. With budget deficits blowing out, governments debt continues to rise from already high levels.** Given that yield curves are not that steep, it makes perfect sense for issuers to lock in debt for a long period of time at relatively low rates. Spanish 25 year bonds are trading at slightly above 1%, with Italian 50 year bonds yielding just above 2%. These low yields levels may not be sustained once the ECB starts to scale back its bond purchase programme. Thus, it is not surprising that governments are looking to lock in debt now at these low long term rates. Another factor to bear in mind is the possibility of a changed political landscape in Germany post its September elections. The Green Party is doing well in opinion polls and we could have a much more fragmented political system, with less adherence to traditional fiscal orthodoxy, post the elections. This could weigh on German and other Eurozone bond markets, in another sign that big government is back.
- **This week, it is the turn of the Fed to hold its latest monetary policy meeting.** However, the central bank is expected to leave monetary policy unchanged. As mentioned above, US economic data have printed strongly since the March FOMC meeting, meaning that Chair Powell can expect to face questions on the potential for US tapering starting sooner rather than later. Chair Powell has previously stated that rates will only rise after tapering has started.
- **Data-wise in the US, the main highlight will be the first reading of Q1 GDP.** The aforementioned strong US data in Q1 is expected to result in a 6.5% rise in annualised growth. The US economy has been buoyed by the rapid pace of its vaccine programme and the substantial Biden stimulus package worth \$1.9trn, which includes large fiscal transfers. Indeed, household income is projected to rise by 20.3% in March, while consumption is forecast to increase by 4.3%. Core-PCE inflation for March is likely to pickup as well, reflecting the increase in consumer activity, although, base effects will have a big impact, lifting the annual rate from 1.4% to 1.8%. The Fed's preferred measure of wage inflation, though, - the wages subcomponent of the Employment Cost Index is expected to remain subdued. In terms of more timely data, consumer confidence is forecast to rise to 112.0 from 109.7 in April.
- **In the Eurozone, the first reading of Q1 GDP will also feature.** Output is forecast to contract by 0.8% in Q1, as the economy continued to be impacted by restrictions due to a resurgence in coronavirus cases. Indeed, it is envisaged that GDP declined in Germany, Italy and Spain. More positively though, the EC sentiment indices for April are all projected to rise, as is the German Ifo. Elsewhere, the consensus is for headline HICP to edge up to 1.6% in April from 1.3%. The core rate is expected to remain at 1%, as underlying price pressures remain subdued. **Meanwhile in the UK, house price data are the main release of note.**



	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	1.2059	1.20	1.20	1.21
EUR/GBP	0.8701	0.87	0.88	0.88
EUR/JPY	130.07	130	130	129
GBP/USD	1.3860	1.38	1.36	1.38
USD/JPY	107.84	108	108	107
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		Panetta, Lane (Mon); <b>Lagarde</b> (Wed); de Guindos (Thu)		
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>				
<b>Mon 26th</b>	<b>GER:</b>	09:00	German Ifo (April)	96.6	97.7
	<b>US:</b>	13:30	Durable Goods (March)	-1.2%	+2.5%
			- Ex-Transport (March)	-0.9%	+1.6%
<b>Tue 27th</b>	<b>ITA:</b>	09:00	ISTAT Business Confidence (April)	101.2	102.8
	<b>ITA:</b>	09:00	Consumer Confidence (April)	100.9	102.3
	<b>EU-19:</b>	10:00	Business Climate (April)	0.30	
	<b>UK:</b>	11:00	CBI Distributive Trades (April)	-45	
	<b>US:</b>	14:00	Case-Shiller House Prices (February)	+1.2% (+11.1%)	+1.1% (+11.8%)
	<b>US:</b>	15:00	Conference Board Consumer Confidence (April)	109.7	112.0
<b>Wed 28th</b>	<b>JPN:</b>	00:00	BoJ Interest Rate Announcement	-0.10%	-0.10%
	<b>JPN:</b>	00:50	Retail Sales (March)	(-1.5%)	(+4.7%)
	<b>GER:</b>	07:00	Gfk Consumer Sentiment (May)	-6.2	-3.5
	<b>FRA:</b>	07:45	Consumer Confidence (April)	94	94
	<b>IRL:</b>	<b>11:00</b>	<b>Retail Sales (March)</b>	<b>+13.9% (-3.2%)</b>	<b>-5.0% (+5.7%)</b>
	<b>US:</b>	19:00	Fed Funds Rate Announcement	0.00 - 0.25%	0.00 - 0.25%
	<b>US:</b>	19:30	Fed Press Conference		
<b>Thurs 29th</b>	<b>SPA:</b>	08:00	Flash HICP (April)	+1.9% (+1.2%)	+0.8% (+1.9%)
	<b>GER:</b>	08:00	Unemployment Rate (April)	6.0%	6.0%
	<b>EU-19:</b>	10:00	EC Economic Sentiment (April)	101.0	103.0
			- Industrial / Services / Consumer	2.0 / -9.3 / -10.8	4.3 / -8.0 / -8.1
	<b>EU-19:</b>	11:00	M3 Money Annual Growth (March)	(+13.3%)	(+10.2%)
	<b>GER:</b>	13:00	Flash HICP (April)	+0.5% (+2.0%)	+0.4% (+2.0%)
	<b>US:</b>	13:30	GDP (Q1: Advance Reading)	+4.3% s.a.a.r.	+6.5% s.a.a.r.
	<b>US:</b>	13:30	Advance Core PCE Prices (Q1)	+1.3%	+2.0%
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 19th April)	+547,000	+560,000
	<b>US:</b>	15:00	Pending Home Sales (March)	-10.6	+3.5%
<b>Fri 30th</b>	<b>JPN:</b>	00:30	CPI Overall (April)	(-0.2%)	(+0.0%)
	<b>JPN:</b>	00:30	Jobs/Applicants Ratio (March)	1.09	1.09
	<b>JPN:</b>	00:30	Unemployment Rate (March)	2.9%	2.9%
	<b>JPN:</b>	00:50	Industrial Output (March)	-1.3%	-2.0%
	<b>UK:</b>	07:00	Nationwide House Prices (April)	-0.2% (+5.7%)	+0.5% (+5.0%)
	<b>FRA:</b>	06:30	GDP (Q1: Flash Estimate)	-1.4% (-4.9%)	+0.0%
	<b>GER:</b>	07:00	GDP (Q1: Flash Estimate)	+0.3% (-3.7%)	-1.5% (-3.2%)
	<b>FRA:</b>	07:45	Consumer Spending (March)	+0.0%	
	<b>FRA:</b>	07:45	Flash HICP (April)	+0.7% (+1.4%)	+0.2% (+1.6%)
	<b>ITA:</b>	08:00	Unemployment rate (March)	10.2%	
	<b>SPA:</b>	08:00	GDP (Q1: Flash Estimate)	+0.0% (-8.9%)	-0.4% (-4.1%)
	<b>SPA:</b>	08:00	Retail Sales (March)	(-5.9%)	
	<b>ITA:</b>	09:00	GDP (Q1: Flash Estimate)	-1.9% (-6.6%)	-0.4% (-1.3%)
	<b>ITA:</b>	10:00	Flash HICP (April)	+1.8% (+0.6%)	+0.8% (+0.9%)
	<b>EU-19:</b>	10:00	Flash HICP (April)	(+1.3%)	(+1.6%)
			- Ex-Food & Energy	(+1.0%)	(+1.0%)
	<b>EU-19:</b>	10:00	GDP (Q1: Flash Estimate)	-0.7% (-4.9%)	-0.8% (-1.9%)
	<b>EU-19:</b>	10:00	Unemployment Rate (March)	8.3%	8.3%
	<b>US:</b>	13:30	Personal Income / Consumption (March)	-7.1% / -1.0%	+20.3% / +4.0%
			- Core PCE prices	+0.1% (+1.4%)	+0.3% (+1.8%)
	<b>US:</b>	13:30	Employment Cost Index - Wages (Q1)	+0.7%	+0.7%
	<b>US:</b>	15:00	Final Michigan Consumer Sentiment (April)	86.5	88.0

♦ 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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