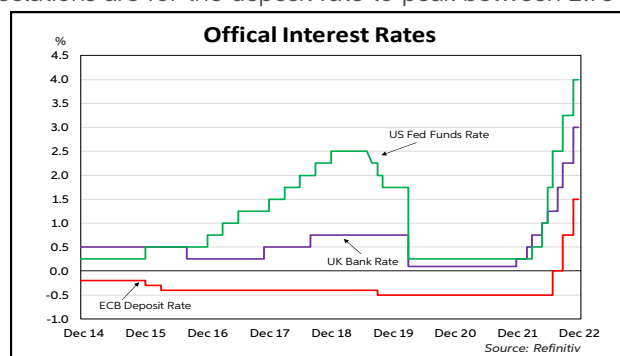


## Hiking All the Way

- **This week's raft of central bank meetings may not provide much in the way of festive cheer for markets.** The ECB, US Federal Reserve and the Bank of England are expected to accompany another round of rate hikes with a downbeat assessment of the economic outlook for 2023. These Central Banks have enacted aggressive policy tightening this year, against the backdrop of surging inflation, to around 10% or above. However, with tentative signs that inflationary pressures may be easing, as well as a recent fall in commodity prices, and given central banks are cognisant of the risks to their respective economies from over tightening, the pace of rate hikes may slow from here on. This prospect has helped to improve risk appetite recently.
- **Since the US Fed started to raise rates in March, it has hiked by 375bps, including four consecutive 75bps increases.** However, at its last meeting in November the FOMC statement signalled that it was considering slowing the pace of rate hikes. Chair Powell's press conference struck a more hawkish tone though, stating that the ultimate level of rates will be higher than previously expected. More recently, Powell has doubled down on these remarks, reiterating that the peak in US rates will be higher than previously guided. Nevertheless, the minutes from the November meeting show that a majority of FOMC members judged that slowing the pace of hikes would likely soon be appropriate. Futures contracts suggest this may occur on Wednesday, with a 50bp rate hike priced in. Aside from the policy announcement, attention will be centred on the updated interest rate projections, which may well show US rates rising above 5% next year, and remaining at elevated levels for an extended period of time. In contrast, the market currently envisages that rates will peak at 5%, with rate cuts expected by the end of next year.
- **Meanwhile, the BoE started its rate tightening cycle last December and has hiked for eight consecutive meetings, with the Bank Rate currently at 3%.** This included a 75bps hike in November. However, Governor Bailey was quite clear in stating that the BoE believes that the official interest rate will go up by less than priced in by markets. At the time, futures contracts were pricing in a peak rate near 4.75%. There has been quite a lot of volatility in UK futures contracts over the last 2-3 months against the eventful UK fiscal/political backdrop. However, there has been a clear softening trend in rate hike expectations, which at one stage saw rates rising to as high as 6%. Markets are now envisaging a peak at around 4.6%. In terms of this Thursday's outcome, recent comments from a MPC members suggest the committee is split on whether to maintain or slow the pace of rate hikes. The market is pencilling in a 50bps increase. Rate cuts are not expected to materialise in the UK until 2024-25.
- **The ECB was much slower out of the blocks to tighten policy.** It ended QE at mid-year before implementing its first rate increase in July, ending its negative interest rate strategy in the process. To date, the ECB has hiked rates by 200bps. However, the October meeting statement noted that it has "made significant progress in withdrawing monetary policy accommodation", opening the door to smaller rate hikes, than the recent 75bps clip. Meantime, inflation fell for the first time in seventeen months in November, adding to speculation that the ECB may opt for a more modest 50bps hike this week. However, comments from ECB officials suggest there are differing views on the Governing Council in relation to slowing the pace of rate hikes. Influential Board Member Schnabel noted that the data indicate the room to slow the pace of rate hikes "remains limited". In contrast, other officials have suggested that raising rates in smaller increments is warranted, given the central bank is now taking policy into restrictive territory. The market is anticipating a 50bps hike on Thursday. This would see the deposit rate end 2022 at 2.00%. Meanwhile, guidance regarding quantitative tightening as well as the updated staff projections, which will include forecasts for 2025 for the first time, will garner attention. Looking ahead, market expectations are for the deposit rate to peak between 2.75-3.00% in mid-2023, with modest rate cuts priced in for 2024-25.
- **A busy data schedule also lies ahead next week.** All eyes will be on the US CPI inflation print for November, the day before the Fed interest rate announcement. Headline CPI eased by more than expected to 7.7% in October from 8.2%, and down from a peak of 9.1% in June, fuelling expectations that the Fed will slow the pace of rate hikes. A further decline in the headline CPI rate to 7.4% is pencilled in for November. Core-CPI is forecast to edge lower to 6.2% from 6.3%. US retail sales and industrial production data (November) will feature also.
- **Similarly, UK CPI data for November are due the day before the BoE meets.** Headline CPI is projected to edge lower to 10.9%, from 11.1%, with the core rate expected to be unchanged at 6.5%. Meanwhile, average earnings are forecast to rise by 6.2% y/y in October, from 6.0%, as labour market conditions remain tight, with the jobless rate at 3.7%. Elsewhere, the consensus is for GDP to rebound by 0.4% in October, having contracted in the previous two months, although the risks to the data are to the downside.
- **In terms of more timely indicators of economic activity,** it is envisaged the flash PMIs in the US, UK and Eurozone will remain in contraction territory in December, confirming a weak Q4 for some of the major advanced economies.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2022	2023	2023
Fed Funds	3.875	4.375	5.125	5.125
ECB Deposit	1.50	2.00	2.75	3.00
BoE Repo	3.00	3.50	4.25	4.25
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 Q4	End Q1	End Q2
		2022	2023	2023
EUR/USD	1.0527	1.03	1.04	1.05
EUR/GBP	0.8589	0.86	0.87	0.88
EUR/JPY	143.97	143	142	142
GBP/USD	1.2256	1.20	1.20	1.19
USD/JPY	136.75	139	137	135
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		<b>Lagarde (Thu)</b>		
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>				
<b>Mon 12th</b>	<b>UK:</b>	07:00	GDP (October) - 3mnth / 3mnth	-0.6% (+1.3%) -0.2%	+0.4% (+1.4%) -0.4%
	<b>UK:</b>	07:00	Industrial Output (September) - Manufacturing Output	-1.8% (-5.2%) -0.0% (-5.8%)	+0.0% (-2.7%) +0.0% (-5.2%)
	<b>UK:</b>	07:00	Goods Trade Balance (September) - Non-EU	-£15.7bn -£8.6bn	-£15.7bn
<b>Tue 13th</b>	<b>GER:</b>	07:00	Final HICP (November)	+0.0% (+11.3%)	+0.0% (+11.3%)
	<b>UK:</b>	07:00	Claimant Count (November)	+3,300	
	<b>UK:</b>	07:00	Unemployment Rate (October)	3.6%	3.7%
	<b>UK:</b>	07:00	Average Earnings (October) - Ex-Bonus	(+6.0%) (+5.7%)	(+6.2%) (+5.9%)
	<b>UK:</b>	07:00	Employment Change (October)	-52,000	
	<b>GER:</b>	10:00	ZEW Economic Sentiment (December)	-36.7	-26.4
	<b>US:</b>	11:00	NFIB Business Optimism (November)	91.3	
	<b>US:</b>	13:30	CPI (November) - Core	+0.4% (+7.7%) +0.3% (+6.3%)	+0.3% (+7.4%) +0.4% (+6.2%)
<b>Wed 14th</b>	<b>UK:</b>	07:00	CPI (November) - Core	+2.0% (+11.1%) +0.7% (+6.5%)	+0.6% (+10.9%) +0.5% (+6.5%)
	<b>EU-19:</b>	10:00	Industrial Production (October)	+0.9% (+4.9%)	-1.5% (+3.6%)
	<b>IRL:</b>	<b>11:00</b>	<b>Residential Property Price Index (October)</b>	<b>+0.6% (+10.8%)</b>	<b>+0.4% (+10.0%)</b>
	<b>US:</b>	19:00	Fed Funds Target Range - FOMC Press Conference	3.75-4.00% 3.75-4.00%	4.25-4.5%
<b>Thu 15th</b>	<b>CHINA:</b>	02:00	Industrial Production (November)	(+5.0%)	(+3.8%)
	<b>FRA:</b>	07:45	INSEE Business Climate (December)	101	100
	<b>UK:</b>	12:00	BoE Interest Rate Decision	3.00%	3.50%
	<b>EU-19:</b>	13:15	ECB Deposit Rate - Re-fi Rate	2.00% 2.50%	2.50% 3.00%
	<b>EU-19:</b>	13:45	ECB Press Conference		
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 5th December)	+230,000	
	<b>US:</b>	13:30	Retail Sales (November) - Ex-Autos - Control	+1.3% (+8.3%) +1.3% +0.7%	-0.1% (+7.6%) +0.3%
	<b>US:</b>	14:15	Industrial Production (November) - Manufacturing Output - Capacity Utilisation	-0.1% (+3.3%) +0.1% 79.9%	-0.2% (+2.5%) 79.8%
<b>Fri 16th</b>	<b>UK:</b>	00:01	Gfk Consumer Confidence (December)	-44	-44
	<b>UK:</b>	07:00	Retail Sales (November) - Ex-Fuel	+0.6% (-6.1%) +0.3% (-6.7%)	+0.3% (-5.7%) +0.2% (-5.8%)
	<b>FRA:</b>	08:15	Flash S&P Composite PMI (December)	48.7	48.7
	<b>GER:</b>	08:30	Flash S&P Composite PMI (December)	46.3	46.4
	<b>EU-19:</b>	09:00	Flash S&P Composite PMI (December) - Manufacturing / Services	47.8 47.1 / 48.5	48.0 47.1 / 48.5
	<b>UK:</b>	09:30	Flash S&P Composite PMI (December) - Manufacturing / Services	48.2 46.5 / 48.8	48.0 46.2 / 48.5
	<b>EU-19:</b>	10:00	Final HICP (November) - Ex-Food & Energy	-0.1% (+10.0%) +0.2% (+6.6%)	-0.1% (+10.0%) +0.2% (+6.6%)
	<b>US:</b>	14:45	Flash S&P Composite (December) - Manufacturing / Services	46.4 47.7 / 46.2	46.6 47.9 / 46.5

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

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