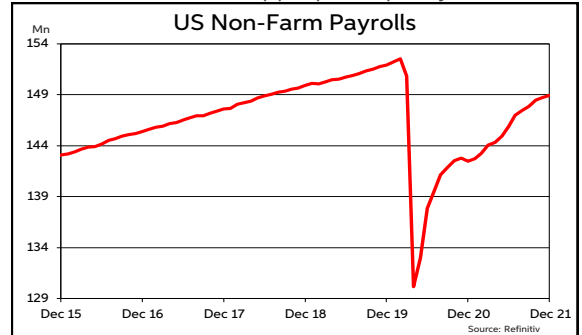


## March Hare has some catching up to do

- **It has been a difficult end to a difficult month for equity and bond markets, with considerable volatility in the past week, including some very big intra-day swings.** Investors are wrestling with the competing forces of high inflation, rising interest rates, expectations economies can continue to recover as Covid-19 recedes, as well as ample liquidity in markets, not to mention increased geo-political risks. A risk-off tone has held the upper hand in January, with the S&P 500 down by 10% since the start of the month, while ten year US Treasury yields have risen by 30bps. The biggest dial mover in markets recently has been the marked hardening of rate hike expectations. Markets are now looking for up to five US rate hikes this year, compared to three at the end of last year. UK rates are now seen rising to 1.5% by early next year compared to expectations before Christmas that they would top out at circa 1%. The ECB is now expected to start hiking rates before year end, with futures contracts suggesting that euro rates will turn positive around mid-2023.
- **Most attention is focused on the US economy and the Fed, with the first of a series of rate hikes on the cards at the next FOMC meeting in March.** The Fed is confident about the underlying strength of the economy, noting that indicators of economic activity and employment have continued to strengthen, and job gains have been solid in recent months. Indeed, Chair Powell at the Fed press conference commented that the economy is in a stronger position compared to the last tightening cycle, including a far stronger labour market. At the same time, inflation is running well above its target, and much higher than the last time the Fed started to hike interest rates.
- **Crucially he advised that these differences are likely to have “important implications for the appropriate pace of policy adjustments”.** In other words, the pace of rate rises is likely to be faster than during the last tightening cycle. This suggests that the Fed has to play catch up, having greatly underestimated the rise in inflation and how quickly the jobs market would tighten in 2021. The US economy grew by 5.7% last year and is forecast by the IMF to expand by 4% in 2022. Headline CPI inflation is at a 40-year high of 7%, with the core-CPI at 5.5% - by contrast, core Eurozone inflation is running at 2.7%. Meanwhile, the unemployment rate has fallen below 4%, with average earnings growth near 5%.
- **However, the Fed’s monetary policy remains highly accommodative, with QE continuing until March and official rates still pitched near zero.** The Fed needs to move to a neutral policy quickly and a restrictive stance later in the year if inflationary pressures do not abate. In the last cycle the Fed hiked by 25bps per quarter, with rates topping out at 2.5%. Strangely, markets do not see rates getting to even 2% in this cycle. However, more frequent or bigger rate increases may be required this time around to bring inflation back down close to target, with possibly a higher peak also in rates than 2.5%. Thus, more difficult months could be in store for markets as the Fed moves to an appropriate policy stance.
- **This week, the monetary policy spotlight will be on the Bank of England and the ECB.** The BoE, is set to hike Bank rate by 25bps to 0.5%. In December, the BoE unexpectedly raised Bank rate by 15bps to 0.25% and placed a greater emphasis on the upside risks to inflation. Inflation has risen further and faster than anticipated since, reaching 5.4% in December. The latest labour market data are also consistent with very tight conditions in the job’s market, increasing the risk of second-round inflation effects from higher wages. A move to a Bank rate of 0.5% is significant, as the BoE has previously guided that it will stop reinvesting maturing debt on its balance sheet once interest rates reached this level. Meanwhile, the latest Monetary Policy Report will likely see the BoE revise its inflation forecast higher and its growth forecast lower for 2022.
- **For the ECB, having outlined its planned monetary policy actions until October at its last meeting, no new policy announcements are expected.** There are no new forecasts at this meeting also. At the press conference investors will be paying close attention to any pushback from President Lagarde against market expectations of circa 10-15bps in rate hikes this year. The ECB is currently guiding that interest rate rises are “very unlikely” in 2022.
- **Data-wise, there is a busy schedule ahead this week.** The main release will be the US labour market data for January. Payrolls growth slowed in Q4, rising by a modest 199k in December, although, the unemployment rate fell markedly to 3.9%. In January, payrolls are projected to rise by 200k, while the jobless rate is forecast to be unchanged at 3.9%. The January readings of both the manufacturing and non-manufacturing ISMs are also due. **In the Eurozone, Q4 GDP and flash HICP inflation (January) are the main highlights.** The consensus is for GDP to rise by a meagre 0.3% in the quarter, weighed down by weaker consumption in Germany. Meanwhile, headline inflation is expected to fall from 5% to 4.3%, with the core rate declining to 2.1% from 2.7% as base effects, such as the German VAT cut wash out of the indices.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2022	2022	2022
Fed Funds	0.125	0.375	0.625	0.875
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.25	0.50	0.75	1.00
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 Q1	End Q2	End Q3
		2022	2022	2022
EUR/USD	1.1141	1.14	1.14	1.15
EUR/GBP	0.8311	0.82	0.82	0.83
EUR/JPY	128.54	131	131	131
GBP/USD	1.3402	1.39	1.39	1.39
USD/JPY	115.37	115	115	114
Current Rates Reuters, Forecasts AIB's ERU				

# ECONOMIC DIARY

## Monday January 31st - Friday 4th February

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:				
	BoE Speakers:		Broadbent, Pill (Fri)		
	Fed Speakers:		Daly (Mon)		
Mon 31st	ITA:	09:00	GDP (Q4: Flash Reading)	+2.6% (+3.9%)	+0.5% (+6.2%)
	EU-19:	10:00	GDP (Q4: Flash reading)	+2.2% (+3.9%)	+0.3% (+4.7%)
	GER:	13:00	Flash HICP (January)	+0.3% (+5.7%)	-0.4% (+4.7%)
	JPN:	23:30	Jobs/Applicants Ratio (December)	1.15	1.16
	JPN:	23:30	Unemployment Rate (December)	2.8%	2.8%
Tue 1st	JPN:	00:30	Final Jibun Manufacturing PMI (January)	54.6	54.6
	IRL:	01:01	AIB Manufacturing PMI (January)	58.3	
	UK:	07:00	Nationwide House Prices (January)	+1.0% (+10.4%)	+0.6% (+10.8%)
	GER:	07:00	Retail Sales (December)	+0.6% (-2.9%)	-1.0% (-0.6%)
	FRA:	07:45	Flash HICP (January)	+0.2% (+3.4%)	-0.3% (+3.0%)
	GER:	08:55	Unemployment Rate (January)	5.2%	5.2%
	EU-19:	09:00	Final Markit Manufacturing PMI (January)	59.0	59.0
	UK:	09:30	Mortgage Approvals (December)	+66,964	+66,000
	UK:	09:30	Final Markit/CIPS Manufacturing PMI (January)	56.9	56.9
	EU-19:	10:00	Unemployment Rate (December)	7.2%	7.1%
	US:	14:45	Final Markit Manufacturing PMI (January)	55.0	55.0
	US:	15:00	Manufacturing ISM (January)	58.7	57.5
	US:	15:00	JOLTS Job Openings (December)	10.6m	
	Wed 2nd	EU-19:	10:00	Flash HICP (January) - Ex-Food & Energy	(+5.0%) (+2.7%)
ITA:		10:00	Flash HICP (January)	+0.5% (+4.2%)	-1.3% (+3.7%)
US:		13:15	ADP Employment Report (January)	+807,000	+270,000
IRL:		16:30	Exchequer Returns (January)	Jan'21: +€1.2Bn	+€2.0Bn
Thu 3rd	JPN:	00:30	Final Jibun Services PMI (January)	52.1	52.1
	IRL:	01:01	AIB Services PMI (January)	55.4	
	ITA:	08:45	Markit/HIS Composite PMI (January)	54.7	54.7
	FRA:	08:50	Final Markit Composite PMI (January)	52.7	52.7
	GER:	08:55	Final Markit Composite PMI (January)	54.3	54.3
	EU-19:	09:00	Final Markit Composite PMI (January)	52.4	52.4
			- Final Markit Services PMI (January)	51.2	51.2
	UK:	09:30	Final Markit Composite PMI (January)	53.4	53.4
			- Final Markit Services PMI (January)	53.3	53.3
	EU-19:	10:00	Producer Prices (December)	+1.8% (+23.7%)	+3.0% (+26.6%)
	IRL:	11:00	Unemployment Rate (January) -Covid-19 Adjusted Rate	5.1% 7.5%	5.2% 8.0%
	UK:	12:00	BoE Interest Rate Decision	+0.25%	+0.50%
	UK:	12:30	BoE Press Conference		
	EU-19:	12:45	ECB Refi Rate Announcement	0.00%	+0.00%
			- Deposit Rate	-0.50%	-0.50%
	EU-19:	12:45	ECB Press Conference		
	US:	13:30	Initial Jobless Claims (w/e 24th January)	+260,000	
	US:	14:45	Final Markit Composite PMI (January)	50.8	50.8
			- Final Markit Services PMI (January)	50.9	50.9
	US:	15:00	Non-Manufacturing Ism (January)	62.0	58.7
Fri 4th	GER:	07:00	Industrial Orders (December)	+3.7%	+0.5%
	EU-19:	10:00	Retail Sales (December)	+1.0% (+7.8%)	-0.5% (+5.4%)
	US:	13:30	Non-Farm Payrolls (January)	+199,000	+200,000
			- Unemployment Rate	3.9%	3.9%
		- Average Earnings	+0.6% (+4.7%)	+0.5% (+5.2%)	

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

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