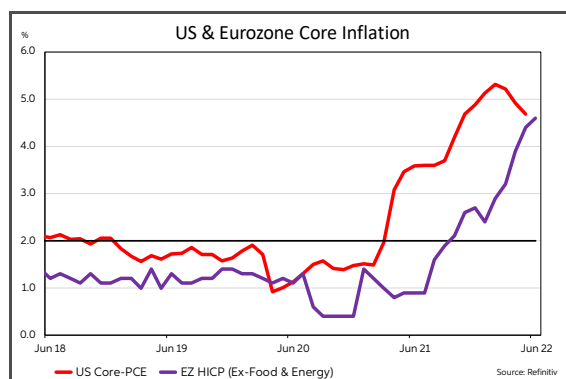


That Hiking Feeling

- **The past week has seen the ECB raise interest rates for the first time since July 2011 and in doing so, bring an end to its negative interest rate policy that has been in place since mid-2014.** It announced a 50bps increase to its key interest rates. The deposit rate will increase to 0.00% (from -0.50%), while the refi rate will rise to 0.50% (from 0.0%). The rate hike was more than the 25bps that the ECB had guided at its previous meeting in June. Speculation had increased in the days leading up to the meeting that the ECB was contemplating a 50bps rate hike. The Governing Council stated that its decision to raise rates by more than it had previously guided was due to its updated assessment of the inflation risks facing the Eurozone, as well as the fact that it had approved the Transmission Protection Instrument (TPI), which is designed to prevent unwarranted side effects on Eurozone bond markets as the ECB tightens monetary policy.
- **In terms of its forward guidance, the ECB is no longer providing any, other than that rates will continue to rise.** The meeting statement noted that at its upcoming meetings further “normalisation of interest rates” will be appropriate. The ECB stated that the front loading of its exit from negative interest rates will allow it to adopt a “meeting-by-meeting” approach to interest rate decisions. At the press conference, President Lagarde faced numerous questions on the issue of forward guidance and what should be expected at its next meeting on September 8th. She eventually stated that the ECB is “not offering forward guidance of any kind”. At the same time, she continued to emphasise that the pace of rate hikes will be data dependent.
- **There has been a lot of volatility in terms of market rate expectations recently in reaction to central bank newsflow and key data releases.** Immediately following the latest ECB meeting, the market was pricing in 125bps of further tightening this year. However, futures contracts softened somewhat after weak Eurozone PMI survey data on Friday. Current market pricing is for around 100bps of rate hikes over the remaining three ECB meetings this year. This would bring the deposit rate to 1% by year end. Further out, there is 25bps of tightening envisaged for 2023. The market is expecting that rates will peak at 1.25% by mid 2023, and remain at this level into the end of 2023. These expected levels are well below what is envisaged from some of the other key central banks, which are already well into their rate tightening cycles. In the US, rates are expected to peak at around 3.4% by year end, while the market anticipates the BoE’s bank rate reaching a high of 3% during the first half of next year.
- **This week, it is the turn of the US Fed to come under the monetary policy spotlight.** Having raised rates by 75bps in June, another 75bps rate hike is widely anticipated on Wednesday. This would lift the Fed Funds target range to 2.25-2.50%, from 1.5-1.75% currently. There was speculation earlier this month that a larger 100bps increase may be incoming, following a further jump in headline CPI inflation to 9.1%. Reports from well placed media sources and comments from a number of key Fed officials though, including arch-hawks Bullard and Waller, suggest that the Fed is unlikely to opt for a 100bps rate hike. At the press conference, investors will be paying close attention to any update to the Fed’s forward guidance. Futures contracts indicate interest rates are expected to peak at 3.4% in December. However, circa 50bps worth of rate cuts are priced in for the second half of next year.
- **There is also a busy data docket in the US this week.** Core-PCE inflation has been trending lower in recent months, albeit from very elevated levels. It stood at 4.7% in May, while the headline rate held steady at 6.3%. In June, core-PCE is forecast to remain at 4.7%, indicating that underlying inflation may remain elevated for some time. Marked downward revisions to consumption data, and a fall in real spending by 0.4% in May, shows that inflation has weighed on spending by more than previously thought, so far in 2022. A slight 0.1% fall in real consumption is anticipated in June. A further decline in the Conference Board measure of consumer confidence is expected in July. In terms of more lagging indicators, US GDP is projected to rebound by 0.5% in annualised terms in Q2, having contracted by 1.6% in the first quarter (which was mainly due to a drag from inventories and trade). Meanwhile, a key measure of wage inflation, the employment cost index is forecast to slow to 1.2% in Q2, from 1.4% in Q1.
- **In the Eurozone, inflation and GDP data will feature as well.** Inflation has risen quite sharply over the past year, largely due to a surge in energy prices which were up 42% y/y in June. This saw headline HICP climb to 8.6% in June, from 8.1% in May, and compared to 1.9% a year ago. Worryingly, inflation has become more broad based recently, with the ex-food & energy reading at 4.6% in June. The upward pressure on prices is due to continue, with both rates expected to rise to 8.7% and 4.7%, respectively, in July. In terms of GDP, growth is forecast to slow to just 0.1% in Q2, from 0.6% in Q1. Elsewhere, a slew of survey data, including the EC sentiment indices and the German Ifo for July are set to remain at rather subdued levels. **There is a sparse data schedule in the UK this week.**



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022	2022	2022	2023
Fed Funds	1.625	2.875	3.375	3.375
ECB Deposit	0.00	0.25	0.75	1.00
BoE Repo	1.25	1.75	2.25	2.25
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 Q3	End Q4	End Q1
	2022	2022	2022	2023
EUR/USD	1.0224	1.02	1.04	1.06
EUR/GBP	0.8500	0.86	0.87	0.88
EUR/JPY	139.16	141	145	148
GBP/USD	1.2026	1.19	1.20	1.20
USD/JPY	136.09	138	139	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:				
	BoE Speakers:				
	Fed Speakers:				
	IMF World Economic Outlook (Tuesday)				
Mon 25th	GER:	07:00	Ifo Business Climate (July)	92.3	90.2
	UK:	11:00	CBI Trends - Orders (July)	18	
Tue 26th	US:	14:00	Case-Shiller House Price (May)	+1.8% (+21.2%)	
	US:	15:00	Conference Board Consumer Confidence (July)	98.7	97.5
	US:	15:00	New Home Sales (June)	+0.696m / +10.7%	+0.666m / -4.3%
Wed 27th	JPN:	06:00	Leading Indicator (May)	-1.5	
	GER:	07:00	Gfk Consumer Sentiment (August)	-27.4	-29.0
	FRA:	07:45	Consumer Confidence (July)	82	80
	ITA:	09:00	ISTAT Business Confidence (July)	110.0	108.0
	ITA:	09:00	Consumer Confidence (July)	98.3	96.0
	EU-19:	09:00	M3 Annual Momey Growth (June)	(+5.6%)	(+5.4%)
	US:	13:30	Durable Goods (June)	+0.8%	-0.5%
			- Ex-Transport	+0.7%	+0.3%
	US:	19:00	Fed Funds Target Rate (July)	1.50-1.75%	2.25-2.50%
	US:	19:30	Fed Press Conference		
Thu 28th	FRA:	07:45	Producer Prices (June)	-0.1% (+27.3%)	
	SPA:	08:00	Retail Sales (June)	(+1.4%)	
	EU-19:	10:00	EC Economic Sentiment (July)	104.0	102.0
			- Industrial / Services / Consumer	7.4 / 14.8 / -24.5	5.7 / 13.4 / -27.0
	IRL:	11:00	Retail Sales (June)	+0.1% (+0.3%)	+1.5% (+4.0%)
	IRL:	11:00	New Dwelling Completions (Q2 2022)	Q2 2021: 4,968	Q2 2022: 5,500
	GER:	13:00	Flash HICP (July)	-0.1% (+8.2%)	+0.5% (+8.1%)
	US:	13:30	GDP (Q2: First Reading)	-1.6% s.a.a.r.	+0.4% s.a.a.r.
	US:	13:30	PCE Prices (Q2: First Reading)	+7.1%	
			- Core-PCE Prices	+5.2%	+4.4%
	US:	13:30	Initial Jobless Claims (w/e 18th July)	+251,000	+248,000
Fri 29th	JPN:	00:30	Jobs/Applicants Ratio (June)	1.24	1.25
	JPN:	00:30	Unemployment Rate (June)	2.6%	2.5%
	JPN:	00:50	Industrial Output (June)	-7.5% (-4.7%)	+3.7% (-7.8%)
	JPN:	00:50	Retail Sales (June)	(+3.6%)	(+2.8%)
	FRA:	06:30	GDP (Q2: First Reading)	-0.2%	+0.2%
	FRA:	07:45	Flash HICP (July)	+0.9% (+6.5%)	+0.3% (+6.8%)
	SPA:	08:00	GDP (Q2: First Reading)	+0.2% (+6.3%)	+0.4% (+5.5%)
	SPA:	08:00	Flash HICP (July)	+1.9% (+10.0%)	-0.8% (+10.4%)
	GER:	08:55	Unemployment Rate (July)	5.3%	5.3%
	GER:	09:00	GDP (Q2: First Reading)	+0.2% (+4.0%)	+0.1% (+1.7%)
	ITA:	09:00	GDP (Q2: First Reading)	+0.1% (+6.2%)	+0.3% (+3.7%)
	EU-19:	10:00	Flash HICP (July)	(+8.6%)	(+8.7%)
			- Ex-Food & Energy	(+4.6%)	(+4.7%)
	EU-19:	10:00	GDP (Q2: First Reading)	+0.6% (+5.4%)	+0.1% (+3.4%)
	ITA:	10:00	Flash HICP (July)	+1.2% (+8.5%)	-0.8% (+8.7%)
	US:	13:30	Personal Income / Real Personal Consumption	+0.5% / -0.4%	+0.5% / -0.1%
	US:	13:30	PCE Prices (June)	+0.6% (+6.3%)	
			- Core-PCE Prices	+0.3% (+4.7%)	+0.5% (+4.7%)
	US:	13:30	Employment Cost Index (Q2: First Reading)	+1.4%	+1.2%
	US:	15:00	Final Uni. Michigan Consumer Sentiment (July)	51.1	51.1

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

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