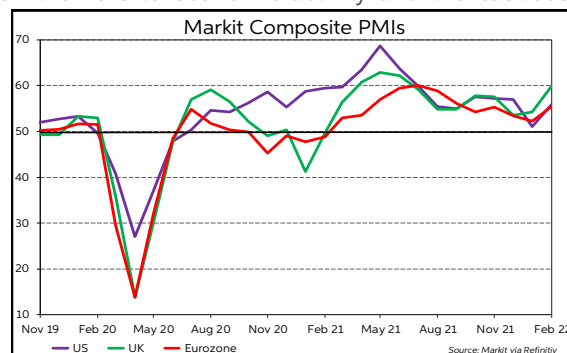


Clouded with Uncertainty

- **The very high level of uncertainty about the economic outlook has been exemplified by the different signals given by the ECB, US Federal Reserve and the Bank of England at their policy meetings this month.** Inflation will be much higher than expected again this year and all three central banks have responded, with the Fed and BoE hiking rates and the ECB bringing forward the end date of its QE programme. However, beyond that their views differ considerably. The ECB remains quite relaxed, as it has indicated that any increase in rates will be gradual and come only "some time" after its bond-buying programme ends in the third quarter of the year. ECB President Lagarde commented that it has extra space if needed after it stops purchasing bonds and before it takes the next step towards policy normalisation – i.e. hiking rates. Markets are pricing in that the ECB could raise rates by close to 50bps before year end, but the central bank seems minded to do less.
- **Meanwhile, as expected the Bank of England last week hiked rates for the third month in a row, raising the Bank rate by 25bps to 0.75%.** The markets expect the BoE to remain on a rate hiking path for the remainder of the year and into 2023. They look for rates to get to circa 1.9% by end 2022 and 2.25% late next year. The BoE, though, seems a lot less sure. In an important tweak to its guidance, it is now saying that "some further modest tightening in monetary policy may be appropriate in the coming months"; previously, "is likely to be" was used instead of "may be". Furthermore, while four of its nine Monetary Policy Committee members voted for a 50bps hike at its last meeting in February, there were no such votes at this month's meeting. Indeed, one member voted to keep rates unchanged. Growth in the UK economy is expected to slow sharply this year and next, as a result of fiscal and monetary tightening and higher energy costs. The markets seem to be pricing in too much in terms of rate hikes given the risks to economic activity and the cautious guidance from the BoE.
- **The Fed, though, is much more aligned with markets in terms of the path for US rates.** It increased the Fed funds rate by 25bps last week to 0.375%. It signalled that it was likely to hike rates at all of its six remaining policy meetings this year, which would take the funds rate up to 1.875% by year end. Further hikes are seen by the Fed in 2023 that would bring rates to 2.875%. This is close to the markets view, which sees rates getting to 2.6% next year. The Fed argues the economy is strong while inflation is elevated. It therefore expects the economy to be able to withstand such monetary tightening.
- **However, the Fed did note that there is considerable uncertainty about the economic outlook, as shown by the wide range in its forecasts.** The projections for the fourth quarter of this year, which is not that far away, see GDP growth in the range 2.1-3.3% yoy, inflation at between 3.7% to 5.5%, while end 2022 official rate forecasts go from a low of 1.4% to as high as 3.1%. Not only are there differing views among the main central banks, there are big differences within central banks on the economic outlook and likely path for interest rates.
- **Turning to the week ahead, the main highlight will be the flash PMI data for March, in the US, Eurozone and UK.** In February, the services PMI jumped higher in all three regions having already been firmly in expansion mode, as the Omicron wave of the pandemic receded. Meanwhile, the manufacturing PMI rose in the UK and the US. However, in the Eurozone, it inched slightly lower. Overall, all three manufacturing surveys were comfortably in expansion territory in February. The March data may provide some initial signs of the impact of the war in Ukraine on economic sentiment. The consensus is for both the manufacturing and the services PMIs to edge back across the board. A number of other survey data will also provide a first look at any impact of the war on sentiment in the Eurozone. This includes the EC flash consumer confidence reading, the bellwether German Ifo and the French INSEE business climate, for March. Similar to the PMIs, they are anticipated to move lower.
- **In the UK, the latest CPI inflation data will garner close attention.** Headline CPI edged higher in January to 5.5% from 5.4%. The core rate rose to 4.4% from 4.2% also. Inflation is set to spike higher again in the coming months, as Ofgem the utilities regulator has announced the cap on consumer prices will rise by 54% in April. The consensus is for both rates to increase to 5.9% and 4.8% in February. Looking further ahead, the Bank of England expects headline CPI to "rise to around 8%" in April, and it also notes that inflation could move higher again in October. Elsewhere in the UK, retail sales are projected to rise by 0.8% in February. Meanwhile, consumer confidence is forecast to decline to -30 from -26, as rising inflation and the cost of living squeeze in the UK weigh on household incomes, and in turn, sentiment. With this in mind, the Chancellor's Spring Statement will be followed with interest on Wednesday.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2022	2022	2022
Fed Funds	0.375	0.375	0.875	1.375
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.75	0.75	1.25	1.50
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	1.1059	1.10	1.11	1.12
EUR/GBP	0.8408	0.83	0.83	0.83
EUR/JPY	131.85	127	128	128
GBP/USD	1.3147	1.33	1.34	1.35
USD/JPY	119.23	115	115	114
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 21st - Friday 25th March

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde , de Guindos, Panetta (Tue)		
	BoE Speakers:		Cunliffe (Tue); Bailey (Wed); Mann (Thu)		
	Fed Speakers:		Powell , Bostic (Mon); Williams, Daly, Mester (Tue); Powell , Daly (Wed); Bostic (Thu); Daly, Williams (Fri)		
			Extraordinary NATO Summit (24th-25th March)		
			European Council Meeting (24-25th March)		
Mon 21st	GER:	07:00	Producer Prices (February)	+2.2% (+25.0%)	+1.7% (+26.2%)
Tue 22nd	UK:	11:00	CBI Trend - Orders (March)	20	
Wed 23rd	UK:	07:00	PPI Output Prices (February)	+1.2% (+9.9%)	
			- Input Prices (February)	+0.9% (+13.6%)	
	UK:	07:00	CPI (February)	-0.1% (+5.5%)	+0.6% (+5.9%)
			- Core CPI	-0.4% (+4.4%)	+0.4% (+4.8%)
	UK:	14:00	Spring Statement 2022		
	US:	14:00	New Home Sales (February)	+0.8m / -4.5%	+0.8m / +1.5%
	EU-19:	15:00	Flash Consumer Confidence (March)	-8.8	-12.3
Thu 24th	JPN	00:30	Flash Jibun Bank Composite PMI (March)	45.8	
			- Manufacturing / Services	52.7 / 44.2	
	FRA:	07:45	INSEE Business Climate (March)	112	110
	FRA:	08:15	Flash Markit Composite PMI (March)	55.5	54.3
	GER:	08:30	Flash Markit Composite PMI (March)	55.6	54.0
	EU-19:	09:00	Flash Markit Composite PMI (March)	55.5	54.0
			- Manufacturing / Services PMI	58.2 / 55.5	56.0 / 54.1
	UK:	09:30	Flash Markit / CIPS Composite PMI (March)	59.9	58.7
			- Manufacturing / Services PMI	58.0 / 60.5	57.1 / 59.0
	US:	12:30	Initial Jobless Claims (w/e 14th March)	+214,000	+211,000
	US:	12:30	Durable Goods (February)	+1.6%	-0.5%
			- Ex-Transport	+0.7%	+0.6%
	US:	13:45	Flash Markit Composite PMI (March)	55.9	55.1
			- Manufacturing / Services PMI	57.3 / 56.5	55.8 / 56.0
Fri 25th	UK:	00:01	Gfk Consumer Confidence (March)	-26	-30
	UK:	07:00	Retail Sales (February)	+1.9% (+9.1%)	+0.8% (+8.0%)
			- Ex-Fuel	+1.7% (+7.2%)	+1.0% (+6.1%)
	GER:	09:00	Ifo Business Climate (March)	98.9	94.0
	EU-19:	09:00	M3 Money Growth (February)	(+6.4%)	(+6.3%)
	US:	14:00	Final Uni. Michigan Sentiment (March)	59.7	59.7

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

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