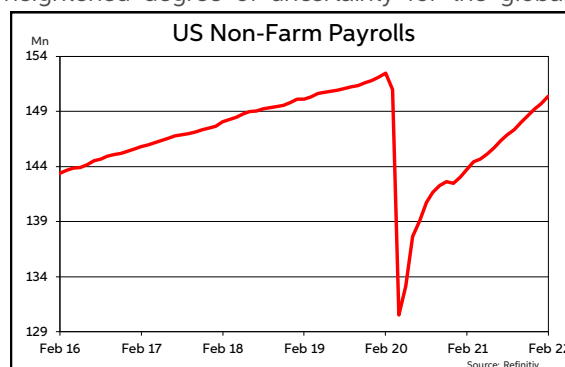


Inflated Risks

■ **As the opening quarter of the year draws to a close, from a financial markets viewpoint, the first three months have been very eventful.** The period has been characterised by accelerating inflation amid surging energy prices which have had a number of consequences for markets. There has been a notable hawkish shift in both interest rate expectations and central banks themselves (including rate hikes from the BoE and Fed), which in turn has seen bond yields rise significantly. Elsewhere, the main equity indices have suffered falls as investors have been adjusting to the higher inflation/interest rate outlook. More recently, markets have also had to contend with elevated geopolitical risks stemming from the Russian invasion of Ukraine. This has resulted in heightened risk aversion and volatility on markets. The global benchmark S&P 500 index is down around 5% on a year to date basis, while the Euro Stoxx 50 has fallen by circa 9%. We have also seen some choppy trading conditions on currency markets. The key EUR/USD rate for example, has traded in a \$1.08-1.15 range in Q1, although, more recently it has generally moved in a tighter \$1.09-1.11 corridor. Overall, the dollar has gained around 3% on the exchanges since the start of the year, benefitting from safe haven demand and a more hawkish Federal Reserve.

■ **The general consensus coming into 2022 was that a moderation in energy prices and some improvement in supply chain disruptions would help to lower the rate of inflation as the year progressed.** However, it became quite clear in the early part of the quarter that higher inflation would not prove to be transitory. Meanwhile, more recently, the impact from the war in Ukraine on global commodity prices and on-going supply chain issues will add to inflation pressures over the coming months. This in turn, will accentuate the negative drag on consumer spending from the impact on disposal incomes. Inflation rates are already at 40-year and 30-year highs in the US and UK respectively, while in the Eurozone, it reached record highs in January, before climbing even higher in February. So as we look ahead to the second quarter and indeed the remainder of the year, many of the facets that defined Q1 will continue to feature prominently. This includes higher inflation and volatile trading conditions amid the heightened degree of uncertainty for the global economy.

■ **Turning to the week ahead, the main highlight will be the US labour market data for March.** There have been strong US job gains in recent months. Payrolls have averaged of 582K per month since December. The unemployment rate has declined to a low level of 3.8%, while encouragingly, labour force participation has increased to 62.3% (from 61.9% at the end of last year). Payrolls are forecast to increase by 488k in March, while the jobless rate is expected to edge down to 3.7%. However, the tight conditions in the labour market are placing upward pressure on wages. Indeed, at the most recent FOMC press conference, Chair Powell noted that there are currently 1.7 jobs for every unemployed person, resulting in an “unhealthy” level of tightness in the labour market. Chair Powell also stated that, “the increases (in wages) are running at levels that are well above what would be consistent with 2% inflation”. Average earnings are projected to rise by a further 5.5% year-on-year in March.



■ **There are a slew of other data due in the US, including the latest reading of core-PCE inflation.** In January, the core measure rose by 0.5% for the fourth month in-a-row, lifting the annual rate to 5.2%. The consensus is for core-PCE to rise by 0.4% in February, lifting the year-on-year rate up to 5.5%. Meanwhile, consumption is projected to rise by 0.5% month-on-month in February, with incomes growing by 0.5% also. The former grew by a substantial 2.1% in January, while the latter remained static. Elsewhere, the Conference Board measure of consumer sentiment is forecast to deteriorate once again in March, as rising inflation continues to weigh heavily on confidence.

■ **In the Eurozone, inflation data will also garner attention.** In February, HICP inflation rose by more than anticipated, jumping to 5.9% from 5.1% (a new record high). However, the ex-food & Energy reading was more muted, at just 2.9%. Indeed, energy prices have been the largest contributor to the increase in headline HICP for sometime. In February this remained the case, as energy prices contributed a hefty 3.1 percentage points to the total. It is anticipated that both the headline and core rate of HICP continued to trend upwards in March, rising to 6.5% and 3.3%, respectively. Looking further ahead, the conflict in Ukraine is likely to exacerbate the upward trend on prices. The ECB has revised higher its inflation forecast to 5.1% this year from 3.2% in its December projections. Elsewhere, the EC sentiment indices are expected to decline across the board in March. Meantime, the Eurozone unemployment rate is forecast to have edged lower in February to 6.7% from 6.8%.

	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	1.1005	1.10	1.11	1.12
EUR/GBP	0.8337	0.83	0.83	0.83
EUR/JPY	134.11	127	128	128
GBP/USD	1.3199	1.33	1.34	1.35
USD/JPY	121.84	115	115	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde, Panetta (Wednesday), Lane, Guindos (Thu) Schnabel (Fri)			
	BoE Speakers:	Bailey (Mon); Broadbent (Wed)			
	Fed Speakers:	Harker (Tue); Barkin, Bostic (Wed); Williams (Thu)			
		OPEC+ Meeting (Thursday 31st March)			
		EU-CHINA Virtual Summit (Friday 1st April)			
Mon 28th	IRL:	11:00	Retail Sales (February)	-1.5% (+8.9%)	+0.5% (-0.4%)
Tue 29th	JPN:	00:30	Jobs/Applicants Ratio (February)	1.20	1.20
	JPN:	00:30	Unemployment Rate (February)	2.8%	2.8%
	GER:	07:00	Gfk Consumer Sentiment (April)	-8.1	-12.0
	FRA:	07:45	Consumer Confidence (March)	98	94
	SPA:	08:00	Retail Sales (February)	(+4.0%)	
	UK:	09:30	Mortgage Approvals (February)	+83,992	74,000
	US:	14:00	Case-Shiller House Prices (January)	+1.5% (+18.6%)	+1.3% (+18.4%)
	US:	15:00	Consumer Confidence (March)	110.5	107.0
	US:	15:00	JOLTS Job Openings (February)	+11.3m	
Wed 30th	JPN:	00:50	Retail Sales (February)	(+1.6%)	(-0.3%)
	SPA:	08:00	Flash HICP (March)	(+7.6%)	(+7.9%)
	ITA:	09:00	Producer Prices (February)	+9.7% (+32.9%)	
	ITA:	09:00	Consumer Confidence (March)	112.4	
	ITA:	09:00	ISTAT Business Confidence (March)	113.4	
	EU-19:	10:00	EC Economic Sentiment (March)	114.0	110.0
			- Consumer / Industrial / Services	-18.7 / 14.0 / 13.0	-18.7 / 10.0 / 8.9
	GER:	13:00	Flash HICP (March)	+0.9% (+5.5%)	+1.9% (+6.4%)
	US:	13:15	ADP National Employment (March)	+475,000	+450,000
	US:	13:30	GDP (Q4:Final Reading)	+7.0% s.a.a.r.	+7.1% s.a.a.r.
	US:	13:30	PCE Prices (Q4: Final Reading)	+6.3% s.a.a.r.	+6.3% s.a.a.r.
			- Core PCE Prices	+5.0% s.a.a.r.	+5.0% s.a.a.r.
Thu 31st	UK:	07:00	GDP (Q4: Second Reading)	+1.0% (+6.5%)	+1.0% (+6.5%)
	FRA:	07:45	Flash HICP Inflation (March)	+0.9% (+4.2%)	+1.6% (+4.6%)
	GER:	08:00	Retail Sales (February)	+2.0% (+10.3%)	+0.8% (+7.1%)
	GER:	08:55	Unemployment Rate (March)	5.0%	5.0%
	ITA:	09:00	Unemployment Rate (February)	8.8%	8.7%
	ITA:	10:00	Flash HICP Inflation (March)	+0.8% (+6.2%)	+2.8%(+7.0%)
	EU-19:	10:00	Unemployment Rate (February)	6.8%	6.7%
	US:	13:30	Initial Jobless Claims (W/e 21st March)	+187,000	+200,000
	US:	13:30	PCE Price Index (February)	+0.6% (+6.1%)	
			- Core-PCE Prices	+0.5% (+5.2%)	+0.4% (+5.5%)
	US:	13:30	Personal Income / Consumption	+0.0% / +2.1%	+0.5% / +0.5%
Fri 1st	IRL:	01:01	AIB Manufacturing PMI (March)	57.8	
	UK:	07:00	Nationwide House Prices (March)	+1.7% (+12.6%)	
	EU-19:	09:00	Final Markit Manufacturing PMI (March)	57.0	57.0
	UK:	09:30	Final Markit Manufacturing PMI (March)	55.5	55.5
	EU-19:	10:00	Flash HICP (March)	(+5.9%)	(+6.5%)
			- Ex-Food & Energy	(+2.9%)	(+3.3%)
	US:	13:30	Non-Farm Payrolls (March)	+678,000	+488,000
			- Unemployment Rate	3.8%	3.7%
			- Average Earnings	+0.0% (+5.1%)	+0.4% (+%)
	US:	14:45	Final Manufacturing PMI (March)	58.5	58.5
	US:	15:00	Manufacturing ISM (March)	58.6	58.4

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

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