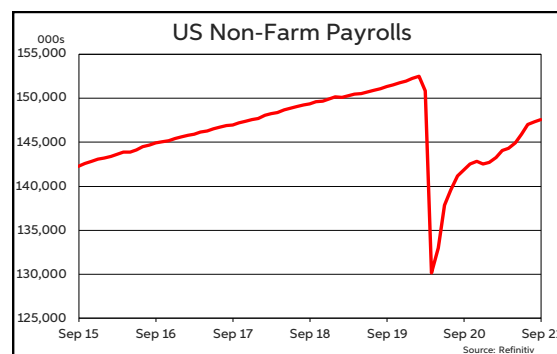


Changing Direction

- **Much of the market's attention over recent months has been centred on monetary policy and specifically on when some of the main central banks may start to reverse course.** This follows their comprehensive provision of monetary stimulus over the last 18 months to help their respective economies deal with the fallout from the Covid-19 pandemic. These measures included rate cuts as well as enormous quantitative easing programmes. The central bank's policy discussions have been set against a backdrop of a quicker than expected economic rebound. These deliberations though, have been complicated by the fact that the spike higher in inflation looks likely to persist for longer than had previously been anticipated, while at the same time the downside risks to the economic outlook have increased. However, over the coming week, we are likely to see significant announcements from some of the key central banks in advanced economies, heralding a shift in policy settings.
- **First up, will be the US Federal Reserve on Wednesday evening.** At its last meeting in September, Fed Chair Powell gave clear guidance that if the recovery in the economy continued broadly as expected then a decision on tapering could be forthcoming at this month's meeting. He elaborated further on the issue by indicating that a gradual tapering process, which would conclude around the middle of next year is likely to be appropriate. While tapering is not in itself a tightening of policy, it does represent a step towards that policy stance. The subsequent release of the minutes from the September meeting showed that purchases could be initially scaled back by \$15bn per month.
- **Since that meeting, while incoming US data has disappointed, there has been no indication from speeches given by various FOMC members, including Chair Powell, of any change to this timeline.** Therefore, with the Fed widely expected to announce the start of tapering, the focus will be on the meeting statement and press conference for any update to the Fed's view on the interest rate outlook. The most recent set of interest rate projections from the Fed, released in September, the so-called 'dot plot' showed a continuation of the trend of the Fed turning more hawkish on rates. Half or nine of the 18 member FOMC (compared to 7 previously) are now of the view that rates will have to rise in 2022. Futures contracts suggest the market is anticipating an increase around the midpoint of next year.
- **However, it may be the Bank of England meeting on Thursday that steals the central bank limelight this week.** The mood on Threadneedle Street has turned decidedly more hawkish recently. This was evident in a number of comments from Governor Bailey, where he stated the Bank will "have to act" to curb rising inflation. This has heightened market speculation that the BoE will hike rates before the end of the year. Futures contracts are pricing in the possibility of rates rising by around 40bps by year end, and the Bank Rate rising to 1% during the first half of 2022. The market is currently pricing in the possibility of some move higher this week. If this does materialise, investors will be looking towards the guidance forthcoming from the BoE on the extent and timing of any additional rate increases. The release of the November Monetary Policy Report will give a more detailed insight into the BoE's current thinking on the economic and inflation outlook for the UK economy. Given last week's update from the ECB, where it pushed back on market rate hike expectations, it seems likely that the ECB will lag behind the BoE and Fed in terms of the start of its tightening cycle.
- **Data-wise, the main highlight this week will be the US labour market report for October.** Payroll growth has been significantly lower over the past two months than had been anticipated. In August and September, payrolls rose by 560k in total, less than half of the 1,228k consensus. Despite job openings being at near record levels, above 10m, payrolls are still circa 5m below their pre-Covid peak. The forecast is for payrolls to rise by 425k in October, as enhanced unemployment benefits ended nationwide in September. Meantime, the unemployment rate is projected to inch lower to 4.7% in October from 4.8% in September. Elsewhere in the US, both the manufacturing and non-manufacturing ISMs are set to be relatively unchanged in October, remaining well in expansion mode, above 60.
- **In the Eurozone, retail sales data for September are due.** Retail sales have been volatile so far in Q3, declining by 2.6% in July before rebounding modestly by 0.3% in August. A 0.2% rise is pencilled in for September. In terms of the labour market, the Eurozone unemployment rate is expected to continue to trend lower in September, edging down to 7.4% from 7.5% in August. On a national level, industrial production data is due for some of the large Eurozone economies, including Germany. **Meanwhile, there is a very quiet data schedule in the UK this week.**



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2021	2022	2022
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.35	0.60	0.60
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
		2021	2022	2022
EUR/USD	1.1606	1.16	1.15	1.14
EUR/GBP	0.8443	0.84	0.84	0.83
EUR/JPY	132.07	132	131	130
GBP/USD	1.3744	1.38	1.37	1.37
USD/JPY	113.77	114	114	114
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday 1st - Friday 5th November

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Wed); Lagarde, Schnabel (Thu); de Guindos, Panetta (Fri)			
	BoE Speakers:				
	Fed Speakers:	Quarles (Thu); George (Fri)			
Mon 1st	IRL:	01:01	AIB Manufacturing PMI (October)	60.3	
	GER:	07:00	Retail Sales (September)	+1.1% (+0.4%)	+0.6% (+1.8%)
	UK:	09:30	Final CIPS/Markit Manufacturing PMI (October)	57.7	57.7
	IRL:	11:00	New Dwelling Completions (Q3)	+5,021 / (+55.5%)	+5,000 / (-1%)
	US:	13:45	Final Markit Manufacturing PMI (October)	59.2	59.2
	US:	15:00	Manufacturing ISM (October)	61.1	60.4
Tue 2nd	EU-19:	09:00	Final Markit Manufacturing PMI (October)	58.5	58.5
	IRL:	16:30	Exchequer Returns (October)	Oct'20: -€11.7Bn	-€7.5Bn
Wed 3rd	IRL:	01:01	AIB Services PMI (October)	63.7	
	UK:	06:00	Nationwide House Prices (October)	+0.1% (+10.0%)	+0.4% (+9.3%)
	ITA:	09:00	Unemployment Rate (September)	9.3%	
	UK:	09:30	Final Markit/CIPS Composite PMI (October)	56.8	56.8
			- Final Services PMI	58.0	58.0
	EU-19:	10:00	Unemployment Rate (September)	7.5%	7.4%
	IRL:	11:00	Unemployment Rate (October)	6.4%	6.3%
			- Covid-19 Adjusted Rate	10.0%	9.2%
	US:	12:15	ADP National Employment	+568, 000	+400,000
	US:	13:45	Final Markit/CIPS Composite PMI (October)	57.3	57.3
			- Final Services PMI	58.2	58.2
	US:	14:00	Factory Orders (September)	+1.2%	-0.1%
			- Ex-Transport	+0.4%	+0.4%
	US:	15:00	Non-Manufacturing ISM (October)	61.9	62.0
	US:	18:00	Fed Funds Rate Announcement	+0.00-0.25%	+0.00-0.25%
	US:	18:30	Fed Press Conference		
Thu 4th	GER:	07:00	Industrial Orders (September)	-7.7%	+2.0%
	ITA:	08:45	Markit/HIS Composite PMI (October)	55.5	
	FRA:	08:50	Final Markit Composite PMI (October)	54.7	54.7
	GER:	08:55	Final Markit Composite PMI (October)	52.0	52.0
	EU-19:	09:00	Final Markit Composite PMI (October)	54.3	54.3
			- Final Services PMI	54.7	54.7
	EU-19:	10:00	Producer Prices (September)	+1.1% (+13.4%)	+1.9% (+15.2%)
	UK:	12:00	BoE Interest Rate Announcement (November)	+0.10%	+0.10%
	UK:	12:30	BoE Press Conference		
	US:	12:30	International Trade (September)	-\$73.3Bn	
	US:	12:30	Initial Jobless Claims (w/e 25th October)	+281,000	+277,000
Fri 5th	GER:	07:00	Industrial Output (September)	-4.0% (+1.6%)	+1.0% (+0.6%)
	FRA:	07:45	Industrial Output (September)	+1.0% (+1.8%)	+0.4% (+2.7%)
	ITA:	09:00	Retail Sales (September)	+0.4% (+1.9%)	
	EU-19:	10:00	Retail Sales (September)	+0.3% (+0.0%)	+0.2% (+1.5%)
	US:	12:30	Non-Farm Payrolls (October)	+194,000	+425,000
			- Unemployment Rate	4.8%	4.7%
			- Average Earnings	+0.6% (+4.6%)	+0.4% (+4.8%)
	US:	19:00	Consumer Credit (September)	+\$14.4Bn	+\$15.7Bn

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

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