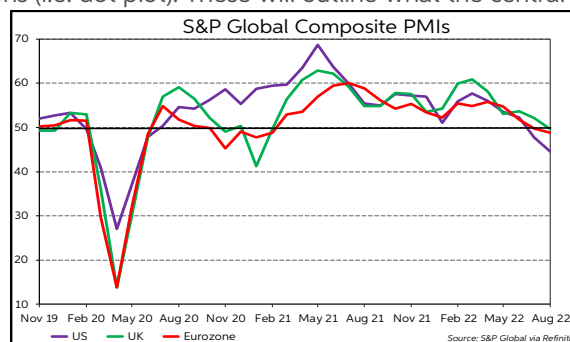


On the Double

- **Most of the main central banks are no longer providing explicit forward guidance on rates.** However, monetary policymakers have communicated quite clearly to the market, a willingness and appetite to raise rates further from their current levels, to deal with elevated and persistently above target inflation. In other words, markets know that official interest rates are going higher, but they don't know the full extent of this tightening cycle. Central bankers removed more detailed communications on rate hikes to protect their credibility and retain flexibility in deciding the magnitude of rate hikes required, in light of the uncertain inflationary and macro environment. Indeed, both the Fed and ECB ended up hiking rates at meetings during the summer by more than they had previously guided to the market. As a result, they have adopted a data dependent, meeting-by-meeting approach to their decision on the size of rate hikes.
- **However, this means that markets are now more reactive to macro newsflow and inter-meeting comments from central bankers, as they try to ascertain the size of upcoming rate hikes.** This sensitivity to data was clearly in evidence this past week when US CPI inflation report for August surprised to the upside of expectations. Headline inflation printed at a higher than forecast 8.3%, while underlying core inflation rose by more than anticipated, to 6.3%. The market reaction was swift and aggressive. The policy sensitive 2-year Treasury yield rose by around 20bps and the S&P 500 fell by over 4% on the day. On currency markets, the dollar rallied, gaining around 1.5%. EUR/USD fell from a high of \$1.018 to back below parity, to a low of \$0.996. At the same time, GBP/USD went from being up at the \$1.17 threshold to straddling the \$1.15 mark. The other impact from the above consensus inflation reading was the market moving to fully price in a 75bps rate hike at this week's Fed meeting, with some talk of a 100bps move.
- **The Fed is widely expected to announce its third consecutive 75bps rate increase this coming Wednesday.** This would see the target range of the Fed funds rate move up to 3.00-3.25%. At the press conference, Fed Chair Powell is likely to continue to emphasise the Fed's willingness to hike rates further to return inflation back to a sustained path towards its 2% target. While the Fed will not be providing explicit guidance on what it intends on doing at its following meeting on November 2nd, we will at least get the updated interest rate projections (i.e. dot plot). These will outline what the central bank sees as the likely future path of interest rates.
- **The last set of projections were published in June and showed the Fed anticipating rates getting to 3.25-3.5% by the end of this year and peaking at 3.75-4% next year.** The Fed is now expected to revise higher these projections. The market is currently envisaging rates ending this year at 4.25% and sees the potential for rates to peak near to 4.5% during the first quarter of next year. However, futures contracts are also pricing in close to 50bps of rate cuts from the Fed by end 2023. Recent comments from a number of FOMC members, including Fed Chair Powell, indicate the Fed does not share the markets view regarding rate cuts next year. The Chairman is likely to push back again in the post-meeting press conference on market expectations for rate cuts in 2023.
- **Meanwhile, the Bank of England will also be under the monetary policy spotlight this week.** In August the BoE raised Bank rate by 50bps to 1.75%, and continued to guide that it will "act forcefully" to bring inflation back to target. The central bank is widely expected to hike rates once again on Thursday. However, unlike in the US where the market has fully priced in a 75bps increase, there is some uncertainty regarding the magnitude of the rate hike in the UK. Investors appear split down the middle on whether the BoE will opt for a 50 or a 75bps increase. Our own view is that a 50bps rate hike is more likely, although, a 75bps increase cannot be fully ruled out. Looking ahead, the market anticipates an aggressive tightening path from the BoE over the next 12 months, with Bank rate expected to rise to 3.5% by year end, and to 4.5% in 2023.
- **Data-wise, the flash PMIs for September in the US, Eurozone and UK will be the highlight.** So far in Q3, the PMIs have moved lower, consistent with a slowdown in activity. Indeed, in the Eurozone, both the manufacturing and services PMIs fell into contraction territory in August. These indices are projected to deteriorate further in September. In the UK, the services PMI was just above 50, while the manufacturing index was at 47.3. It is envisaged the UK manufacturing PMI stayed below 50, and the services index dropped back to 50 in September. Meantime in the US, the services PMI fell to 43.7 in August, its lowest level since May 2020. The manufacturing index stood at 51.5. In September, the US services sector reading is expected to remain deep in contraction mode, while the manufacturing reading is forecast to be little changed. **Elsewhere this week, the Eurozone flash consumer confidence reading for September is due.**



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022	2022	2022	2023
Fed Funds	2.375	3.125	4.125	4.375
ECB Deposit	0.75	0.75	2.00	2.25
BoE Repo	1.75	2.25	3.25	3.50
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 Q3	End Q4	End Q1
	2022	2022	2022	2023
EUR/USD	1.0002	1.00	1.02	1.04
EUR/GBP	0.8753	0.88	0.89	0.90
EUR/JPY	142.96	143	143	143
GBP/USD	1.1423	1.14	1.15	1.16
USD/JPY	142.93	143	140	138

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	de Guindos (Mon); Lagarde (Tue); de Guindos (Wed); Schnabel (Thu)		
	BoE Speakers:			
	Fed Speakers:	Bowmann, Brainard, Powell (Fri)		
Mon 19th	UK:	Bank Holiday (Market Holiday)		
	US: 15:00	NAHB Homebuilder Sentiment (September)	49	47
Tue 20th	JPN: 00:30	CPI (August) - Core	+0.5% (+2.6%) +0.4% (+2.4%)	(+2.7%)
	GER: 07:00	Producer Prices (September)	+5.3% (+37.2%)	+1.5% (+37.5%)
	US: 13:30	Housing Starts (August) - Building Permits	1.5m / -9.6% 1.7m / -0.6%	1.4m / -0.4% 1.6m / -4.5%
Wed 21st	US: 15:00	Existing Home Sales (August)	4.8m / -5.9%	4.7m / -2.3%
	US: 19:00	Fed Interest Rate Announcement - Fed Funds Target Range	+2.25-2.5%	3.0-3.25%
	US: 19:30	Fed FOMC Press Conference		
Thu 22nd	FRA: 07:45	INSEE Business Climate (September)	104	102
	UK: 12:00	BoE Interest rate Announcement	1.75%	2.25%
	US: 13:30	Initial Jobless Claims (w/e 12th September)	+213,000	+220,000
	EU-19: 15:00	Flash Consumer Confidence (September)	-24.9	-26.0
	JPN: 23:00	BoJ Interest Rate Decision	-0.10%	-0.10%
Fri 23rd	UK: 00:01	Gfk Consumer Confidence (September)	-44	-42
	SPA: 08:00	GDP (Q2: Final Reading)	+1.1% (+6.3%)	+1.1% (+6.3%)
	FRA: 08:15	Flash S&P Composite PMI (September)	50.4	
	GER: 08:30	Flash S&P Composite PMI (September)	46.9	46.0
	EU-19: 09:00	Flash S&P Composite PMI (September) - Manufacturing / Services	48.9 49.6 / 49.8	48.2 48.8 / 49.1
	UK: 09:30	Flash S&P / CIPS Composite PMI (September) - Manufacturing / Services	49.6 47.3 / 50.9	49.0 48.0 / 50.0
	US: 14:45	Flash S&P Composite PMI (September) - Manufacturing / Services	44.6 51.5 / 43.7	51.2 / 45.0
	IRL: 23:59	Pre-Budget 2022 White Paper		

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

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