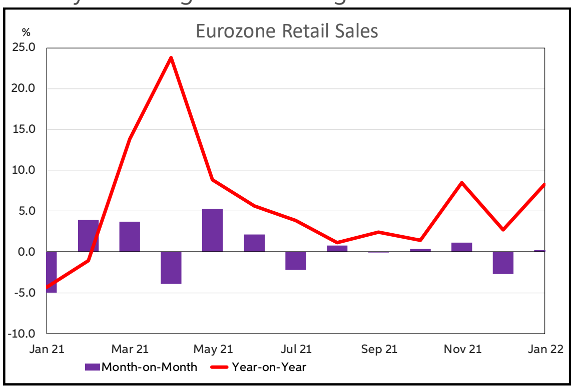
Weekly Market Brief

AIB Treasury Economic Research Unit

4th—8th April 2022

Tough Talk from Fed

- **The OECD in its recent update on the global economy refrained from publishing new forecasts.** It observed that the magnitude of the economic impact of the conflict in Ukraine is highly uncertain, and will depend in part on the duration of the war and the policy responses. The OECD noted, though, that the war will result in a substantial near-term drag on global growth and significantly stronger inflationary pressures. Its analysis showed that if the moves in commodity prices and financial markets seen since the outbreak of the war proved sustained, it could reduce global growth by over 1 percentage point in the first year and push up global inflation by 2.5 percentage points.
- **The impact on growth, though, could be tempered somewhat by a greater than expected rundown of elevated private sector savings or a loosening of fiscal policy.** The latter is already underway. There will be increased government spending on supporting refugees in Europe and to offset some of the effects of higher energy costs on households. Increased spending is also likely on military defence and alternative energy sources. Reasonably solid growth still seems likely in 2022 and 2023 on the basis of the OECD analysis despite the inflation shock, albeit with the warning that the outturn is highly uncertain. This is in line with recent forecasts from the US Fed and ECB, which still expect their economies to record growth of close to 4% this year, although this partly reflects strong carryover effects from 2021.
- **The ECB, though, also looked at a severe downside scenario which included disruptions to European gas supplies and greater second round inflation effects.** It saw the Eurozone economy growing by 2.3% this year in this scenario. This would be consistent with the economy largely stagnating in the final three quarters of the year. Hence, the ECB is cautious about tightening monetary policy, indicating that any rate increases will be very gradual. The BoE is also very cognisant of the downside risks to growth in the UK economy and recently downplayed the need for a considerable tightening of policy. The US Fed, though, does not seem to have the same concerns, with some Fed officials even contemplating hiking rates in 50bps steps. The Fed projection is for rates to rise to 2.875% and it believes the robust US economy will be strong enough to withstand it.
- **Markets are not as convinced, with two key US financial indicators beginning to send recession warning signals.** Two year US Treasury yields are on the verge of rising above 10 year yields which in the past has often been a harbinger of a recession on the way. Meantime, the markets are taking the Fed at its word and pricing in that rates will be hiked to 3% by summer 2023. However, they view this as overkill for the economy and expect the Fed will be forced to start cutting rates soon after in early 2024. It may not even get that far. Tough talking from the Fed is easy for now, with the economy still in strong shape and the unemployment rate at 3.6%. The scale of the inflation shock that is underway, though, may slow the US economy much more than the Fed expects, thereby curtailing its rate hiking intentions.
- **This week, the Fed meeting minutes from the March FOMC will be released.** Investors will be paying close attention to any discussion around the need for hiking in 50bps increments, given a number of officials have noted both their support or their openness to the idea. Any discussions regarding reducing the Fed's balance sheet will also be of interest to market participants. Meanwhile, the ECB will release the monetary policy account of its last meeting in March. The account will be examined for further clarity on the ECB's cautious approach to tightening monetary policy. Some key officials from both central banks are due to make prepared remarks also, including ECB Chief Economist Lane and Fed Vice-Chair Brainard. From the BoE, Governor Bailey is due to speak.



- **In terms of data releases, there is a relatively quiet data schedule on both sides of the Atlantic.** In the Eurozone, retail sales are projected to rise by 0.6% in February, with the year-on-year rate decelerating to 4.9% from 7.8% owing to base effects. Elsewhere, German industrial production is forecast to fall by 0.2% in February as higher costs due to the war in Ukraine for energy and other raw materials weigh on the sector. Overall, German industrial production is still 3% below its pre-pandemic level, despite increasing by a solid 1.1% in December and 2.7% in January. Meantime, French industrial output is expected to rise by 0.3% in February, although, similar to in Germany, output is still well below its pre-Covid level, down around 3.9% on its February 2020 peak.
- **In the US, the non-manufacturing ISM (March) is due.** The index is projected to move higher to 58.5 from 56.5, in line with the services PMI for the month, which rose to 58.9 from 56.5. Meanwhile, in the UK there is a barren data schedule.

Interest Rate Forecasts

	Current	End Q2 2022	End Q3 2022	End Q4 2022
Fed Funds	0.375	1.125	1.625	1.875
ECB Deposit	-0.50	-0.50	-0.50	-0.25
BoE Repo	0.75	1.25	1.50	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 Q2 2022	End Q3 2022	End Q4 2022
EUR/USD	1.1028	1.11	1.12	1.13
EUR/GBP	0.8426	0.84	0.84	0.85
EUR/JPY	135.55	135	138	140
GBP/USD	1.3087	1.32	1.33	1.33
USD/JPY	122.89	122	123	124

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 4th - Friday 8th April

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Date	UK & Irish Time		Release	Previous	Forecast
This Week:	**ECB Speakers:**		Lane (Wednesday)		
	BoE Speakers:		**Bailey,** Cunliffe (Mon); Pill (Thu)		
	Fed Speakers:		Brainard (Tue); Harker (Wed); Bullard, Bostic, Evans (Thu)		
Mon 4th	**GER:**	07:00	Trade Balance (February)	+€9.4bn	+€9.6bn
			- Exports	-2.8%	+1.5%
	EU-19:	09:30	EU Sentix (April)	-7.0	-9.7
	US:	15:00	Factory Orders (February)	+1.4%	-0.6%
			- Durable Goods	-2.2%	
			- Ex-Transport	-0.6%	
	IRL:	***16:30***	***Exchequer Returns (March)***	***Mar'21: -€4.2bn***	***-€2bn***
Tue 5th	***IRL:***	***01:01***	***AIB Services PMI (March)***	***61.8***	
	JPN:	01:30	Final Jibun Composite PMI (March)	49.3	49.3
			- Final Jibun Services PMI (March)	48.7	48.7
	FRA:	07:45	Industrial Output (February)	+1.6%	+0.3%
	ITA:	08:45	S&P Services PMI (March)	53.6	
	FRA:	08:50	Final S&P Composite PMI (March)	56.2	56.2
	GER:	08:55	Final S&P Composite PMI (March)	54.6	54.6
	EU-19:	09:00	Final S&P Composite PMI (March)	54.5	54.5
			- Final S&P Services PMI (March)	54.8	54.8
	UK:	09:30	Final S&P / CIPS Composite PMI (March)	59.7	59.7
			- Final S&P Services PMI (March)	61.0	61.0
	US:	13:30	International Trade (February)	-$89.7Bn	-$88.5Bn
	US:	14:45	Final S&P Composite PMI (March)	58.5	58.5
			- Final S&P Services PMI (March)	58.9	58.9
	US:	15:00	Non-Manufacturing ISM (March)	56.5	58.0
Wed 6th	**GER:**	07:00	Industrial Orders (February)	+1.8%	-0.8%
	EU-19:	10:00	Producer Prices (February)	+5.2% (+30.6%)	1.3% (+31.6%)
	IRL:	***11:00***	***Unemployment Rate (March)***	***5.2%***	***5.2%***
			- Covid-19 Adjusted Rate	***7.0%***	***6.5%***
	US:	19:00	Fed Meeting Minutes (15-16th March)		
Thu 7th	**GER:**	07:00	Industrial Output (February)	+2.7% (+1.5%)	-0.2% (+3.5%)
	EU-19:	10:00	Retail Sales (February)	+0.2% (+7.8%)	+0.6% (+4.7%)
	EU-19:	10:00	ECB Monetary Policy Account (9-10th March)		
	IRL:	***11:00***	***CPI Inflation (March)***	***+0.9% (+5.7%)***	***+1.8% (+6.7%)***
	US:	13:30	Initial Jobless Claims (w/e 28th March)	+202,000	
Fri 8th					

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