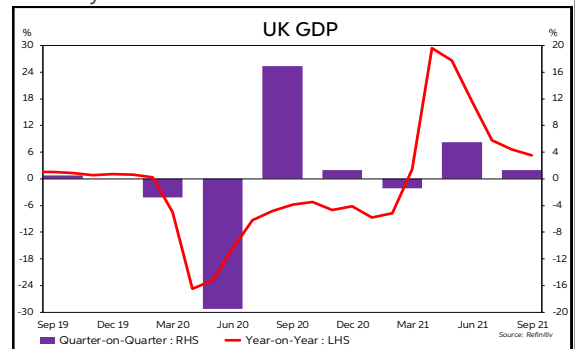


## Omi-Present Uncertainty

- There has been a marked increase in volatility on financial markets in recent weeks, with sharp movements even on an intra-day basis, becoming increasingly common across all asset classes.** Investors are desperate for some certainty, but the economic outlook is getting cloudier by the day, resulting in big swings back and forth on markets. This is contributing to a general risk-off tone to trading as markets start to wind down for the year. In this regard, the OECD has just published its semi-annual Economic Outlook. The global economy has seen a much stronger than expected recovery this year, with output, trade, employment and incomes all rebounding. The OECD's central forecast is that the global recovery will continue, with further good growth forecast for the world economy in 2022-23, as it copes better with the pandemic and macroeconomic policies remain supportive of activity.
- However, that's where the good news ends.** The OECD points to striking imbalances in the economic recovery, both within and across countries, in labour markets, and in the gulf that has opened up between supply and demand. These imbalances are adding to the high level of uncertainty around the outlook for the global economy, with more downside than upside risks. There are far more questions than answers when it come to the likely path of the pandemic, especially with the emergence of new Covid strains, the ongoing disruption and bottlenecks in supply chains, the emergence of labour market shortages, as well as the future path of inflation and monetary policy. Central banks are also now diverging in their approach in how they should respond to the sharp rise in inflation this year, adding to the uncertainty in markets.
- The emergence of the worrying Omicron variant of the coronavirus only adds to uncertainty and downside risks facing the world economy.** There is little known yet about this new variant, but there are clear concerns about increased transmissibility and that vaccines may be less effective against it. The short-term implications are clearly negative for growth. Restrictions on travel have already been imposed, and reduced social distancing and interaction seem inevitable as case numbers rise, regardless of whether authorities tighten restrictions further or not. Indeed, many countries have already re-imposed some restrictions to counteract rising Covid case numbers of the Delta variant. The impact on inflation is less clear. Oil prices are down by about 20% from their recent peak, but the new variant could see disruptions to supply chains and production persist for an even longer period of time.
- The lessons learnt this year, though, are in danger of being lost sight of in this sea of uncertainty and risk aversion.** Both economies and financial markets have become better able to cope with the pandemic, most notably during lockdowns imposed in the opening months of 2021. The recovery in labour markets has been particularly impressive. Corporate and household balance sheets are in a very robust state. There is still a large amount of pent-up demand in economies, which should provide fuel for the recovery. Vaccines have also proved effective in combating severe Covid illness, though, they may require tweaking to counter new variants. One other lesson from this year, though, is that the production and deployment of vaccines needs to be ramped up globally in 2022. Until this is achieved, the economic recovery will remain at risk and the outlook laced with uncertainty.
- The UK economy suffered a marked slowdown in growth in Q3, owing to a surge in new Covid cases brought on by the Delta variant.** The economy grew by just 1.3% q/q in the three month to September, down from 5.5% in Q2. Indeed, the economy actually contracted in July by 0.2% as case numbers rose sharply, before rebounding by 0.2% and 0.6% in August and September. This week, the monthly reading of GDP is forecast to show the economy expanded by 0.5% in October, as the recovery continues, despite Covid case numbers rising to similar levels to those in July. Meanwhile, industrial production is projected to rise by 0.2%, leaving output circa 1.2% below its pre-Covid level still.
- In the US, the November reading of CPI inflation will be the main highlight.** In October, inflation surged to 30 year highs, with the headline and core rate rising to 6.2% and 4.6%, respectively. Since then, Chair Powell has stated he is open to the idea of accelerating the pace of QE tapering on inflation concerns. Following Friday's fall in the jobless rate to 4.2%, a further marked rise in inflation would increase the likelihood that QE will be withdrawn more quickly. The consensus is for headline CPI to rise to 6.8% and core CPI to 4.9%. Meanwhile, consumer sentiment is expected to deteriorate further in December, as the rapid rise in prices weighs on confidence. **Elsewhere, in the Eurozone this week, the final reading of Q3 GDP should confirm the economy grew by 2.2% in Q3.**



	Interest Rate Forecasts			
	Current	End Q4 2021	End Q1 2022	End Q2 2022
Fed Funds	0.125	0.125	0.125	0.25
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.25	0.50
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 Q4 2021	End Q1 2022	End Q2 2022
EUR/USD	1.1274	1.12	1.11	1.11
EUR/GBP	0.8532	0.84	0.83	0.83
EUR/JPY	127.70	129	129	130
GBP/USD	1.3213	1.33	1.34	1.34
USD/JPY	113.24	115	116	117

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Lagarde</b> , Panetta (Mon); de Guindos (Tue), <b>Lagarde</b> , de Guindos, Schnabel (Wed) <b>Lagarde</b> , Panetta (Fri)		
	<b>BoE Speakers:</b>	Broadbent (Mon)		
	<b>Fed Speakers:</b>			
<b>Mon 6th</b>	<b>GER:</b>	07:00 Industrial Orders (October)	+1.3%	-0.5%
	<b>ITA:</b>	09:00 Retail Sales (October)	+0.8% (+5.3%)	
	<b>EU-19:</b>	09:30 EU Sentix (December)	18.3	15.9
<b>Tue 7th</b>	<b>UK:</b>	00:01 BRC Retail Sales (November)	(-0.2%)	
	<b>UK:</b>	07:00 Halifax House Prices (November)	+0.9% (+8.1%)	
	<b>GER:</b>	07:00 Industrial Output (October)	-1.1% (-0.9%)	+0.8% (-3.0%)
	<b>EU-19:</b>	10:00 GDP (Q3: Revised Reading)	+2.2% (+3.7%)	+2.2% (+3.7%)
	<b>GER:</b>	10:00 ZEW Economic Sentiment (December)	31.7	25.3
	<b>US:</b>	13:30 International Trade (October)	-\$80.9Bn	-\$67.5Bn
	<b>US:</b>	20:00 Consumer Credit (October)	+\$29.9Bn	
	<b>JPN:</b>	23:50 GDP (Q3: Revised Reading)	-0.8% (+1.4%)	-0.8% (+1.4%)
	<b>CHINA:</b>	Trade Balance (November) - Exports	+\$84.5Bn (+27.1%)	+\$82.8Bn (+17.2%)
<b>Wed 8th</b>	<b>JPN:</b>	05:00 Economy Watchers Poll (November)	55.5	
	<b>US:</b>	15:00 JOLTS Job Openings (October)	10.4Mn	
<b>Thu 9th</b>	<b>CHINA:</b>	01:30 CPI (November)	+0.7% (+1.5%)	+0.3% (+2.5%)
	<b>CHINA:</b>	01:30 PPI November)	(+13.5%)	(+12.6%)
	<b>GER:</b>	07:00 Trade Balance (October) - Exports	+€13.2Bn -0.7%	+€13.3Bn
	<b>IRL:</b>	<b>11:00 CPI (November)</b>	<b>+0.7% (+5.1%)</b>	<b>+0.4% (+5.1%)</b>
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 29th November)	+222,000	
<b>Fri 10th</b>	<b>UK:</b>	07:00 GDP (October)	+0.6% (+5.3%)	+0.5% (+5.2%)
	<b>UK:</b>	07:00 Industrial Output (October) - Manufacturing	-0.4% (+2.9%) +0.1% (+2.8%)	+0.2% (+2.2%) +0.1% (+1.4%)
	<b>UK:</b>	07:00 Goods Trade Balance (October) - Non-EU	-£14.7Bn -£9.1Bn	-£14.1Bn
	<b>GER:</b>	07:00 Final HICP (November)	+0.3% (+6.0%)	+0.3% (+6.0%)
	<b>ITA:</b>	09:00 Industrial Output (October)	+0.1% (+1.2%)	+0.4% (+3.4%)
	<b>US:</b>	13:30 CPI (November) - Core	+0.9% (+6.2%) +0.6% (+4.6%)	+0.7% (+6.8%) +0.5% (+4.9%)
	<b>US:</b>	15:00 Prel. Uni. of Michigan Consumer Sentiment (Dec)	67.4	67.0

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