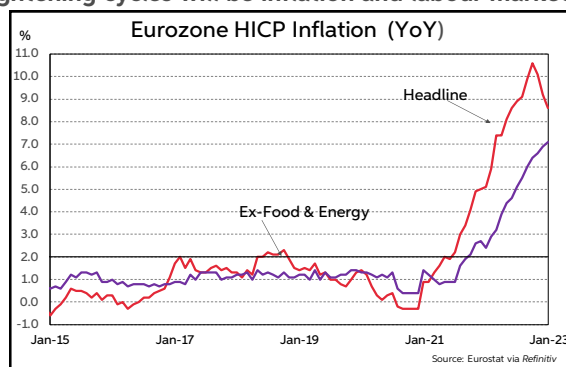


## Keep on Rocking in the Rate World

- **The shift by central banks to smaller rate hikes is not a signal that monetary tightening is about an end.** Central banks have continued to emphasise that the battle to bring inflation back under control and restore price stability is far from won. They have been guiding that further hikes are on the cards and rates will need to go higher than previously anticipated. They have also moved to quell expectations of rate cuts before year-end, indicating that policy will need to be kept tight for a prolonged period of time to return inflation to target.
- **The US Fed opted for a 25bps rate hike at the last FOMC meeting in early February, bringing the target range for the funds rate up to 4.5-4.75%.** The Fed's interest rate projections from December revealed near unanimity on the FOMC that rates will need to rise above 5% in 2023. Since then, US data have printed on the strong side, leading markets to start pricing in that rates could rise to a 5.25-5.5% range by mid-year. Further out, markets have greatly scaled back their expectations on rate cuts. They now see rates ending the year at close to 5.25% compared to 4.5% in mid-January. Futures contracts then see rates being cut to around 3.75% by end 2024, up from 3% a month ago, with rates now expected to be pitched at 3.5% by end 2025, up from 2.75% previously.
- **Meanwhile, the BoE hiked rates by 50bps in early February, bringing the Bank Rate up to 4%.** There were expectations at the time that the MPC would do one more 25bps hike and then put policy on hold. The BoE, though, retains a tightening bias, noting that further rate increases would be required if there is evidence of persistent inflationary pressures. UK data have been coming in ahead of expectation recently, while wage inflation remains high amid tightness in the labour market. Thus, futures contracts are currently envisaging a peak of 4.6% in rates around mid-year. Only modest rate cuts of circa 75bps are envisaged in 2024-25.
- **The ECB has given a clear signal that rates will be hiked by 50bps at its March meeting, bringing them up to 3%.** Market expectations for the peak in rates have firmed considerably in the past month on the back of hawkish comments from ECB officials and stronger Eurozone data. Further contracts now see rates rising to 3.75% this summer, up from 3.25% in January. Rate cuts are no longer seen on the cards for later this year, with markets looking for a modest 75bps of easing during 2024-25.
- **Markets then have lifted their expectations of the peak or terminal rate across markets in the past month.** However, of greater significance is that they now expect rates to remain elevated over the medium term. The risk to this view is that the time lag in terms of monetary policy impacting economic activity is being underestimated by central banks and markets. This could see both growth and inflation turn out to be much weaker than anticipated in the coming year, which would set up the prospect of large rate cuts in 2024-2025. For now, though, stronger than expected data are encouraging central banks to keep the pedal to the floor and continue hiking and markets are taking note.
- **Key in determining when central banks will reach the end of their tightening cycles will be inflation and labour market data.** Thus, this week's flash estimate of Eurozone HICP inflation for February will be of keen interest. The consensus is for a further decline in headline HICP to 8.2% from 8.6% in January, and down from a peak of 10.6% last October. However, core inflation is projected to remain unchanged, at its record high of 5.3%, indicating underlying price pressures are sticky. In terms of the labour market, the Eurozone unemployment rate is forecast to remain at an all-time low of 6.6% in January, for the fourth month in a row. Meanwhile, the EC sentiment indicators for February will provide a more timely update on economic conditions in the Eurozone, with a modest improvement pencilled across all the indices in the month.
- **In the US, the main releases of note will be the Conference Board measure of consumer confidence and the ISMs for February.** Consumer confidence is expected to rise slightly in February to 108.2 from 107.1, as labour market conditions appear to have strengthened in the US at the start of the year. Meantime, the manufacturing ISM is projected to edge higher in February, but remain in contractionary territory. In contrast, the non-manufacturing-ISM is forecast to fall, but stay firmly in expansion mode.
- **There is a quiet UK data schedule this week.** Mortgage approvals (Jan) and Nationwide house prices (Feb) are due. **On the home front, a busy calendar includes;** the National Accounts and earnings data for Q4, retail sales for January, as well as, Exchequer returns, HICP inflation, unemployment and the PMIs for February.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2023			
Fed Funds	4.625	4.875	5.375	5.375
ECB Deposit	2.50	3.00	3.75	3.75
BoE Repo	4.00	4.25	4.50	4.50
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
	2023			
EUR/USD	1.0548	1.07	1.09	1.10
EUR/GBP	0.8823	0.88	0.88	0.89
EUR/JPY	143.68	144	145	143
GBP/USD	1.1954	1.22	1.24	1.24
USD/JPY	136.17	135	133	130

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lane (Mon); Schnabel (Thu)		
	<b>BoE Speakers:</b>	Broadbent (Mon); Pill, Mann, Cunliffe (Tue); <b>Bailey</b> (Wed); Pill (Thu)		
	<b>Fed Speakers:</b>	Jefferson (Mon); Goolsbee (Wed); Waller (Thu); Logan, Bostic, Bowman (Fri)		
<b>Mon 27th</b>	<b>ITA:</b>	09:00 ISTAT Business Confidence (February)	102.7	
	<b>ITA:</b>	09:00 ISTAT Consumer Confidence (February)	100.9	
	<b>EU-19:</b>	09:00 M3 Annual Money Growth (January)	(+4.1%)	(+3.9%)
	<b>EU-19:</b>	10:00 EC Economic Sentiment Index (February)	99.9	101.0
		- Consumer / Industrial / Services	-19.0 / 1.3 / 10.7	-19.0 / 2.0 / 12.4
	<b>US:</b>	13:30 Durable Goods (January)	+5.6%	-4.0%
		- Ex-Transport	-0.2%	+0.0%
<b>Tue 28th</b>	<b>FRA:</b>	07:45 GDP (Q4: Final Reading)	+0.1% (+0.5%)	+0.1% (+0.5%)
	<b>FRA:</b>	07:45 Flash HICP (February)	(+7.0%)	(+7.0%)
	<b>SPA:</b>	08:00 Flash HICP (February)	(+5.9%)	
	<b>IRL:</b>	<b>11:00 Retail Sales (January)</b>	<b>+0.0% (+0.5%)</b>	<b>+1.0% (+2.3%)</b>
	<b>IRL:</b>	<b>11:00 Earnings &amp; Labour Costs (Q4 2022)</b>		
	<b>US:</b>	14:00 Case-Shiller House Prices (December)	-0.5% (+6.8%)	
	<b>US:</b>	15:00 Conference Board Consumer Confidence (Feb)	107.1	108.2
<b>Wed 1st</b>	<b>IRL:</b>	<b>01:01 AIB Manufacturing PMI (February)</b>		
	<b>UK:</b>	07:00 Nationwide House Prices (February)	+0.0% (+1.1%)	
	<b>EU-19:</b>	09:00 Final S&P Manufacturing PMI (February)	48.5	48.5
	<b>UK:</b>	09:30 Mortgage Approvals (January)	35,612	41,000
	<b>UK:</b>	09:30 Final S&P / CIPS Manufacturing PMI (February)	49.2	49.2
	<b>IRL:</b>	<b>11:00 Monthly Unemployment (February)</b>	<b>4.4%</b>	<b>4.4%</b>
	<b>IRL:</b>	<b>11:00 Flash HICP (February)</b>	<b>-1.0% (+7.5%)</b>	<b>+0.6% (7.2%)</b>
	<b>IRL:</b>	<b>11:00 Quarterly National Accounts</b>		
		- GDP (Q4 2022)	<b>+3.5% (+13.5%)</b>	<b>+3.5% (+13.5%)</b>
	<b>GER:</b>	12:00 Flash HICP (February)	+0.5% (+9.2%)	
	<b>US:</b>	14:45 Final S&P Manufacturing PMI (February)	47.8	47.8
	<b>US:</b>	15:00 Manufacturing ISM (February)	47.4	48.0
<b>Thu 2nd</b>	<b>ITA:</b>	09:00 Unemployment Rate (January)	7.8%	
	<b>EU-19:</b>	10:00 Flash HICP (February)	+0.6% (+8.6%)	+0.5% (+8.2%)
		- Ex-Food & Energy	(+7.1%)	
		- Ex-Food, Energy, Alcohol & Tobacco	+0.5% (+5.3%)	+0.5% (+5.3%)
	<b>EU-19:</b>	10:00 Unemployment Rate (January)	6.6%	6.6%
	<b>ITA:</b>	10:00 Flash HICP (February)	-1.5% (+10.7%)	
	<b>EU-19:</b>	13:30 Initial Jobless Claims (w/e 20th February)	+192,000	+200,000
	<b>IRL:</b>	<b>16:30 Exchequer Returns (February)</b>	<b>Feb'22: +€0.9Bn</b>	<b>+€1.7bn (Excl. €4bn to NRF)</b>
<b>Fri 3rd</b>	<b>IRL:</b>	<b>01:01 AIB Services PMI (February)</b>	<b>54.1</b>	
	<b>GER:</b>	07:00 Trade Balance (January)	+€10.0bn	€11.0bn
		- Exports	-6.3%	+1.2%
	<b>FRA:</b>	07:45 Industrial Output (January)	1.1%	+0.2%
	<b>ITA:</b>	08:45 S&P Composite PMI (February)	51.2	51.2
	<b>FRA:</b>	08:50 Final S&P Composite PMI (February)	51.6	51.6
	<b>GER:</b>	08:55 Final S&P Composite PMI (February)	51.1	51.1
	<b>EU-19:</b>	09:00 Final S&P Composite PMI (February)	52.3	52.3
		- Final S&P Services PMI (February)	53.0	53.0
	<b>UK:</b>	09:30 Final CIPS / S&P Composite PMI (February)	53.0	53.0
		- Final S&P Services PMI (February)	53.3	53.3
	<b>EU-19:</b>	10:00 Producer Prices (January)	+1.1% (+24.6%)	
	<b>US:</b>	14:45 Final S&P Global Composite PMI (February)	50.2	50.2
		- Final S&P Services PMI (February)	50.5	50.5
	<b>US:</b>	15:00 Non-Manufacturing ISM (February)	55.2	54.5

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

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