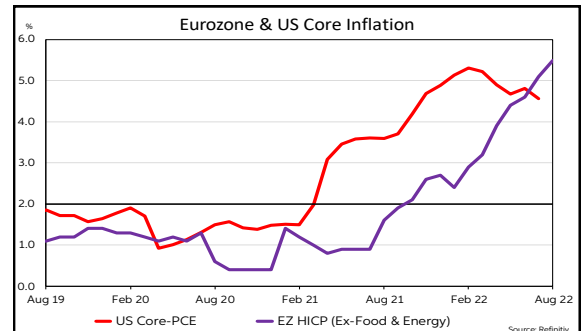


## Keeping At It

- **It really looks we are back to the 1970s, with an energy crisis, galloping inflation, sharply rising interest rates, the UK government looking to borrow its way out of a recession, while a sullen Russia is ramping up military operations again, this time as it doubles down on its war in Ukraine.** Fed Chair, Jay Powell, is apparently a big admirer of a previous Chair, Paul Volcker, who tightened monetary policy very aggressively in the 1980s, putting the US economy into recession to squeeze inflationary pressures, which had lasted almost a decade, out of the system. The penny has dropped in markets that Chair Powell is equally determined to restore price stability. This week he once again committed to tightening monetary policy sufficiently to bring inflation back down to 2%, saying the Fed “will keep at it until we are confident the job is done”, a not so subtle reference to Volcker’s memoirs, titled “Keeping At It”.
- **There has been a dramatic re-pricing in interest rate markets over the past two months across the globe.** This has had four notable features; a shift to much larger sized rate hikes, far higher terminal or peak interest rates, delayed policy reversal into easing mode and marked moves upwards on the level where interest rates settle at over the medium term. The move to larger rate hikes is already here with the ECB and SNB recently joining the Fed in hiking by 75bps and the Swedish Riksbank jacking rates up by a full 100bps. Meantime, **markets have moved to price in UK rates getting close to 5.5% next year** as the government slashes taxes despite sky high inflation and a widening BoP deficit. In the US, a significant number of FOMC members now seeing the Fed funds rate peaking in a 4.75-5.0% range. Markets now expect ECB rates to reach 3% by mid-2023 whereas, when not that long ago, the peak was expected to be little more than 1%.
- **The Fed has been to the vanguard in arguing that restoring price stability will require a restrictive policy stance for some time and cautioning against prematurely loosening policy.** Its latest macro forecasts make for sombre reading. Core PCE inflation is seen as still being well above target at end 2023, in a 3.0-3.5% range. It only gets down to 2% by end 2025. Indeed, expectations for policy easing during H2 2023 have largely evaporated everywhere. Meanwhile, with inflation proving more persistent than expected, the view now is that rates will have to remain high over the medium term. Markets now see US rates as still being around 3.25-3.5% in 2025. Meantime, UK rates are expected to at 4.25-4.5% and Eurozone rates at around 2.5-2.75% in three years’ time, which is well above their current levels.
- **Of course, there has seldom been as much uncertainty about the economic outlook and central bankers are even divided on their very near term rate views.** There was a three-way split on the MPC this week on the magnitude of the BoE rate hike, while the FOMC is divided down the middle on whether the next rate hike should be 50bps or 75bps. There is also a very broad range in terms of FOMC members forecasts for rates in two to three years’ time. What is clear, though, is that all bar one FOMC member sees US rates rising to a 4.25-5.0% range next year. We are less convinced, though, that UK rates will get anywhere near to the 5.5% level that markets currently expect despite the tax cutting mini-budget, given the very weak outlook for the economy, not to mention the steep fall expected by the BoE for UK inflation in 2023-24.
- **Markets and central bankers remain very sensitive to current inflation readings, so the Eurozone flash HICP data for September will take centre-stage in the release calendar for the coming week.** They are not expected to make pretty reading. The headline HICP rate is forecast to accelerate from 9.1% to 9.6%, on higher household energy bills and an unwinding of big cuts in public transport fares in Germany. The core rate is projected to rise from 5.5% to 5.6%. Meanwhile, the EC Economic Sentiment Index for the Eurozone is expected to fall sharply from 97.6 to 95.0 in September, as the economy continues to lose momentum. Similarly, a weak German Ifo reading for September is anticipated also. The unemployment rate, though, is projected remain at a record low of 6.6% in August.
- **Inflation data will also be to the fore in the US this week.** Core-PCE inflation, the Fed’s preferred measure, has been trending lower since its peak of 5.3% in February, albeit very slowly. However, it is projected to edge slightly higher to 4.7% in August from 4.6%, as price pressures continue to become more broad based.
- **It is an important week in Ireland, with Budget 2023 set to be unveiled on Tuesday.** It will be a much more prudent affair than in the UK. The Government is set to introduce a number of targeted temporary measures to help those households and businesses hardest hit by the surge in energy bills. It will avoid capping energy bills. An unexpected budget surplus has emerged this year, giving the Minister for Finance more scope for spending increases to help support economic activity. Tax cuts are expected to be modest and likely to be focused on low to middle income earners.



|             | Interest Rate Forecasts |        |        |        |
|-------------|-------------------------|--------|--------|--------|
|             | Current                 | End Q4 | End Q1 | End Q2 |
|             | 2022                    | 2023   | 2023   | 2023   |
| Fed Funds   | 3.125                   | 4.375  | 4.625  | 4.625  |
| ECB Deposit | 0.75                    | 2.00   | 2.50   | 2.50   |
| BoE Repo    | 2.25                    | 3.50   | 4.00   | 4.00   |
| 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 |
|         | 2022   | 2023   | 2023   | 2023   |
| EUR/USD | 0.9709                                       | 0.96   | 0.99   | 1.03   |
| EUR/GBP | 0.8899                                       | 0.90   | 0.90   | 0.90   |
| EUR/JPY | 139.05                                       | 139    | 142    | 144    |
| GBP/USD | 1.0908                                       | 1.07   | 1.10   | 1.14   |
| USD/JPY | 143.19                                       | 145    | 143    | 140    |

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); Panetta (Thu); Schnabel, Lane (Fri)  |                                |                                |
|                   | <b>BoE Speakers:</b> | Tenreyro (Mon); Pill (Tue); Cunliffe, Dingra (Wed) Ramsden (Thu)   |                                |                                |
|                   | <b>Fed Speakers:</b> | Collins, Bostic, Mester, Logan (Mon); Evans, Bullard, <b>Powell</b> (Tue); Daly, Bostic, Evans, Bullard (Wed); Daly, Mester, Bullard (Thu); Brainard, Williams (Fri) |                                |                                |
|                   |                      | <b>EU Energy Ministers Meeting ( Friday 30th September)</b>  |                                |                                |
| <b>Mon 26th</b>   | <b>GER:</b>          | 09:00 Ifo Business Climate (September)   | 88.5                           | 87.0                           |
| <b>Tue 27th</b>   | <b>EU-19:</b>        | 09:00 M3 Money Growth (August)   | (+5.4%)                        |                                |
|                   | <b>IRL:</b>          | <b>13:00 Budget 2023</b>   |                                |                                |
|                   | <b>US:</b>           | 13:30 Durable Goods (August)<br>- Ex-Transport   | +0.1%<br>+0.2%                 | -1.1%                          |
|                   | <b>US:</b>           | 14:00 Case-Shiller House Prices (July)   | +0.4% (+18.6%)                 |                                |
|                   | <b>US:</b>           | 15:00 Conference Board Consumer Confidence (Sep)   | 103.2                          | 104.0                          |
|                   | <b>US:</b>           | 15:00 New Home Sales (August)  | +0.5m / -12.6%                 | +0.5m / -2.2%                  |
| <b>Wed 28th</b>   | <b>GER:</b>          | 07:00 Gfk Consumer Sentiment (October)   | -36.5                          | -39.0                          |
|                   | <b>FRA:</b>          | 07:45 Consumer Confidence (September)  | 82                             | 80                             |
|                   | <b>ITA:</b>          | 09:00 ISTAT Business Confidence (September)  | 104.3                          | 102.1                          |
|                   | <b>ITA:</b>          | 09:00 Consumer Confidence (September)  | 98.3                           | 95.8                           |
|                   | <b>IRL:</b>          | <b>11:00 Retail Sales (August)</b>   | <b>-1.6% (-8.1%)</b>           | <b>+1.5% (+8.0%)</b>           |
| <b>Thu 29th</b>   | <b>SPA:</b>          | 08:00 Flash HICP (September)   | +0.3% (+10.5%)                 | +0.6% (+10.1%)                 |
|                   | <b>UK:</b>           | 09:30 Mortgage Approvals (August)  | +63,770                        | +62,000                        |
|                   | <b>EU-19:</b>        | 10:00 EC Economic Sentiment Index (September)<br>- Consumer / Industrial / Services  | 97.6<br>-28.8 / 1.2 / 8.7      | 95.0<br>-28.8 / -1.0 / 7.0     |
|                   | <b>GER:</b>          | 13:00 Flash HICP (September)   | +0.4% (+8.8%)                  | +0.9% (+9.8%)                  |
|                   | <b>US:</b>           | 13:30 GDP (Q2: Final Reading)  | -0.6% s.a.a.r.                 | -0.6% s.a.a.r.                 |
|                   | <b>US:</b>           | 13:30 Core-PCE Prices (Q2: Final Reading)  | +4.4% s.a.a.r.                 | +4.4% s.a.a.r.                 |
| <b>Fri 30th</b>   | <b>JPN:</b>          | 00:30 Jobs/Applicants Ratio (August)   | 1.29                           | 1.30                           |
|                   | <b>JPN:</b>          | 00:30 Unemployment Rate (August)   | 2.6%                           | 2.5%                           |
|                   | <b>JPN:</b>          | 00:50 Industrial Output (August)   | +0.8% (-1.2%)                  | +0.2% (+0.9%)                  |
|                   | <b>JPN:</b>          | 00:50 Retail Sales (August)  | (+2.4%)                        | (+2.8%)                        |
|                   | <b>CHINA:</b>        | 02:30 Final Caixin Manufacturing PMI (September)   | 49.5                           |                                |
|                   | <b>UK:</b>           | 07:00 GDP (Q2: Final Reading)  | -0.1% (+2.9%)                  | -0.1% (+2.9%)                  |
|                   | <b>GER:</b>          | 07:00 Retail Sales (August)  | +1.9% (+2.6%)                  | -1.0% (-5.1%)                  |
|                   | <b>FRA:</b>          | 07:45 Flash HICP (September)   | +0.5% (+6.6%)                  | -0.1% (+6.7%)                  |
|                   | <b>SPA:</b>          | 08:00 Retail Sales (August)  | (-0.5%)                        |                                |
|                   | <b>GER:</b>          | 08:55 Unemployment Rate (September)  | 5.5%                           |                                |
|                   | <b>ITA:</b>          | 09:00 Unemployment Rate (August)   | 7.9%                           |                                |
|                   | <b>EU-19:</b>        | 10:00 Flash HICP (September)<br>- Ex-Food & Energy   | +0.6% (+9.1%)<br>(+5.5%)       | +0.9% (+9.6%)<br>(+5.6%)       |
|                   | <b>EU-19:</b>        | 10:00 Unemployment Rate (August)   | 6.6%                           | 6.6%                           |
|                   | <b>ITA:</b>          | 10:00 Flash HICP (September)   | +0.9% (+9.1%)                  | +1.6% (+9.4%)                  |
|                   | <b>US:</b>           | 13:30 Personal Income / Consumption (August)   | +0.2% / +0.1%                  | +0.3% / +0.2%                  |
|                   | <b>US:</b>           | 13:30 PCE Prices (August)<br>- Core-PCE Prices   | -0.1% (+6.3%)<br>+0.1% (+4.6%) | +0.1% (+6.0%)<br>+0.4% (+4.7%) |
|                   | <b>US:</b>           | 15:00 Final Uni. Michigan Consumer Sentiment (Sep)   | 59.5                           | 59.5                           |

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

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