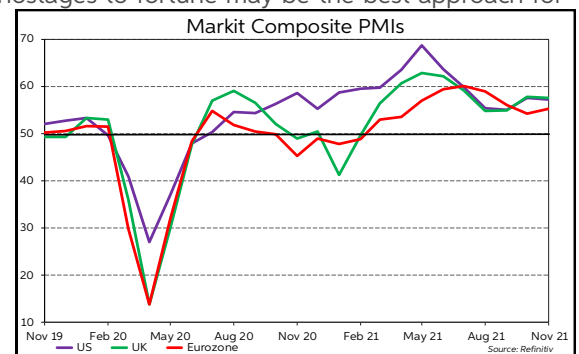


Fair is Foul and Foul is Fair

- **Three of the world's main central banks, the Fed, BoE and ECB, hold policy meetings in the coming week amidst considerable uncertainty and concerns about the prospects for the global economy.** It calls to mind the famous opening scene of Shakespeare's great play Macbeth, with its tremendous sense of foreboding ... "When shall we three meet again? In thunder, lightning, or in rain? When the hurly-burly's done, When the battle's lost and won". There are certainly battles ahead in terms of combating Covid-19 and rising inflationary pressures that could be lost and won in 2022, and in -turn, could greatly impact the stance of monetary policy.
- **Indeed, we are already seeing an impact on the BoE's plans to hike rates soon.** Markets had priced in that UK rates would be increased by 40bps to 0.5% by end year. However, the BoE surprised markets by not hiking in November and seems set to keep policy on hold again this week. One member of the MPC, Michael Saunders, who had voted for a rate hike in November, has indicated that there could now be particular advantages in waiting to see more evidence on the effects of the new Omicron variant on public health and the economy before making decisions on changing monetary policy. Markets now think that the BoE will wait until February to start to hike rates, with a modest 12.5bps increase expected then, and see rates rising to just 0.9% by end 2022 compared to 1.25% previously.
- **Meanwhile, the ECB was expected to provide a clear framework at this week's meeting on its plans for QE post the wind down of its high profile PEPP in March.** However, ECB President Lagarde recently hinted that the ECB may decide to avoid giving a long term commitment at the meeting given the current heightened uncertainty, but may instead set policy for a relatively short period of time. Nonetheless, the ECB can be expected to reaffirm its view that interest rate rises are very unlikely next year and that it will continue with some form of short-term enhanced asset purchase programme. The Fed, though, is expected to announce an acceleration in the pace of tapering its asset purchase programme. The US economic recovery is more advanced, its labour market tighter and inflation higher than elsewhere, pushing the Fed towards an earlier start date for rate hikes following a quicker conclusion to QE.
- **There has been plenty 'hurly-burly' on markets in recent weeks as sentiment ebbs and flows in relation to the future path of the coronavirus and monetary policy.** Central banks are struggling to maintain a consistent message in the face of unexpected developments and rising uncertainty. Volatile markets will be looking for clear guidance on monetary policy in 2022 when the central banks meet, but they may be disappointed. Like the foretelling in Macbeth, that "Fair is foul, and foul is fair, Hover through the fog and filthy air", things may turn out to be very different to what is expected in 2022. In such circumstances, sitting tight and not offering too many hostages to fortune may be the best approach for central banks at present, as they wait for the heavy fog to clear.
- **A busy data schedule this week contains the December flash PMI data for all three economies also.** So far in Q4, the Eurozone manufacturing and services PMIs have printed slightly lower than in Q3, but they have remained well above 50. The consensus is that this trend will continue, with both projected to edge lower, but remain firmly in expansion mode. Meantime, in the US, the services PMI, which has moved further into expansion territory in Q4, is forecast to rise again in December. The manufacturing PMI though, which has declined for the past four months, is set to be unchanged. In the UK, both indices are projected to inch lower in December.



- **Elsewhere in the UK, and before the BoE meets on Thursday, the latest CPI inflation and labour market data are due.** Having increased by more than anticipated in recent months, inflation is set to rise again in November to 4.7% from 4.2%. Indeed, the BoE believes that inflation will accelerate in the months ahead, peaking above 5% early next year. As further jumps in inflation are already expected, greater attention may be paid to the first full labour market report post the furlough scheme. There were 1.1m people on the scheme when it ended. However, the labour market is expected to remain tight. The unemployment rate is forecast to fall in October, to 4.2% from 4.3% as the claimant count fell by 15k in the month and the number of PAYE employees rose by 160k, while there were also a record 1.3m job vacancies.
- **Retail sales and industrial production (Nov) are part of a busy docket in the US.** Retail sales, which are already elevated (21.4% above their pre-pandemic level) are set to rise by 0.8% in the month, while output, which has recovered much more slowly (0.3% above its pre-Covid level) is forecast to rise by 0.7%. In terms of survey data, small business optimism (Nov), homebuilder sentiment, empire state index and the philly fed index (Dec) all feature. **In the Eurozone, industrial production (Oct) is projected to rise by 1.2%, while the bellwether German Ifo (Dec) will feature also.**

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2021	2022	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	End Q1	End Q2
		2021	2022	2022
EUR/USD	1.1296	1.12	1.11	1.11
EUR/GBP	0.8544	0.85	0.84	0.83
EUR/JPY	128.10	128	128	129
GBP/USD	1.3221	1.32	1.32	1.34
USD/JPY	113.38	114	115	116

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:	Waller (Fri)		
Mon 13th				
Tue 14th	UK:	07:00 ILO Employment (October)	+247,000	
		- Unemployment Rate (October)	4.3%	4.2%
	UK:	07:00 Average Weekly Earnings (3mths to October)	(+5.8%)	(+4.5%)
		- Ex-Bonus	(+4.9%)	(+4.0%)
	UK:	07:00 Claimant Count (November)	+160,000	
	EU-19:	10:00 Industrial Production (October)	-0.2% (+5.2%)	+1.2% (+3.4%)
	US:	11:00 NFIB Business Optimism (November)	98.2	
	US:	13:30 PPI Final Demand (November)	+0.6% (+8.6%)	+0.6% (+9.1%)
		- Ex-Food & Energy	+0.4% (+6.8%)	+0.4% (+7.2%)
Wed 15th	CHINA:	02:00 Industrial Output (November)	(+3.5%)	(+3.8%)
	CHINA:	02:00 Retail Sales (November)	(+4.9%)	(+4.9%)
	UK:	07:00 CPI (November)	+1.1% (+4.2%)	+0.5% (+4.7%)
		- Core	+0.7% (+3.4%)	+0.4% (+3.8%)
	UK:	07:00 PPI Output Prices (November)	+1.1% (+8.0%)	
		- Input Prices	+1.4% (+13.0%)	
	IRL:	11:00 Residential Property Price (October)	+1.6% (+12.4%)	+0.8% (+12.8%)
	US:	13:30 NY Fed / Empire State Index (December)	30.9	27.0
	US:	13:30 Retail Sales (November)	+1.7% (+16.3%)	+0.8% (+18.6%)
		- Ex-Autos	+1.7%	+1.0%
		- Ex-Gas & Autos	+1.4%	+0.8%
	US:	15:00 NAHB Homebuilder Sentiment (December)	83	83
	US:	19:00 Fed Funds Rate Announcement	+0.00-0.25%	+0.00-0.25%
	US:	19:30 Fed FOMC Press Conference		
Thu 16th	FRA:	07:45 INSEE Business Climate (Dec)	109	109
	FRA:	08:15 Flash Markit Composite PMI (Dec)	56.1	
	GER:	08:30 Flash Markit Composite PMI (Dec)	52.2	51.0
	EU-19:	09:00 Flash Markit Composite PMI (Dec)	55.4	54.0
		- Manufacturing / Services	58.4 / 55.9	57.7 / 54.2
	UK:	09:30 Flash Markit / CIPS Composite PMI (Dec)	57.6	56.6
		- Manufacturing / Services	58.1 / 58.5	57.6 / 57.5
	UK:	12:00 BoE Interest Rate Announcement (Dec)	+0.10%	+0.10%
	EU-19:	12:45 ECB Re-fi Rate (December)	+0.00%	+0.00%
		- Deposit Rate	-0.50%	-0.50%
	EU-19:	13:30 ECB Press Conference		
	US:	13:30 Housing Starts (November)	+1.52m / -0.7%	+1.57m / +3.4%
		- Building Permits	+1.65m / +4.2%	+1.66m / +0.4%
	US:	13:30 Initial jobless Claims (w/e 6th December)	+218,750	
	US:	13:30 Philly Fed Index (December)	39.0	30.0
	US:	14:15 Industrial Production (November)	+1.6% (+5.1%)	+0.7% (+5.3%)
		- Manufacturing Output	+1.2%	+0.8%
		- Capacity Utilisation	76.4%	76.8%
	US:	14:45 Flash Markit Composite PMI (Dec)	57.2	
		- Manufacturing / Services	58.3 / 58.0	58.5 / 59
Fri 17th	JPN:	00:01 BoJ rate Decision	-0.10%	
	GER:	07:00 Producer Prices (November)	+3.8% (+18.4%)	+1.3% (+19.7%)
	GER:	09:00 German Ifo (December)	96.5	95.4
	EU-19:	10:00 Final HICP (November)	+0.8% (+4.9%)	+0.8% (+4.9%)
		- Ex-Food & Energy	+0.3% (+2.6%)	+0.3% (+2.6%)

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