Weekly Market Brief

AIB Treasury Economic Research Unit

27th – 31st March 2023

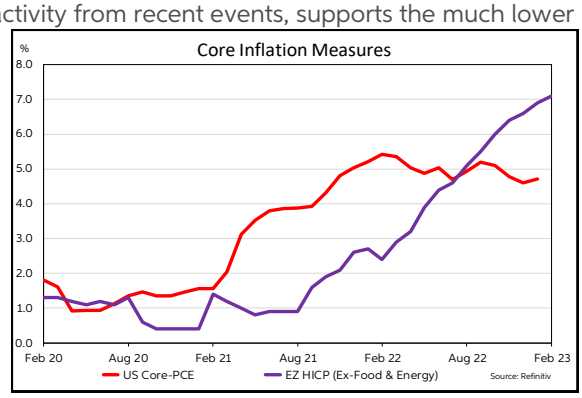
Inflection Point

- **The stresses that have emerged in parts of the global banking system, and the associated volatility this has generated on financial markets are weighing on central bank's monetary policy decisions.** The US Fed, in particular, is clearly worried about the economic implications, having mulled not increasing rates at all, at this months meeting. Nevertheless, it and three other major central banks still went ahead and increased rates over the past week. However, it now seems that we are approaching the end of the rate hiking cycle, with just some modest additional tightening likely in the next couple of months and rate cuts starting to be priced-in by markets for later in the year.

- **Meantime, we have already seen a tightening of financial market conditions and lending standards for loans in the past year.** This could be accentuated by the tensions seen in the banking system in the past fortnight. The US Fed expects that **recent developments are likely to result in tighter credit conditions for households and businesses**, and will weigh on economic activity, hiring and inflation. It added the extent of these effects are uncertain, but Fed Chair Powell opined they could easily have a significant macroeconomic impact. Those US banks which are less confident about holding on to their deposit base will be more reluctant about continuing to lend at the same pace as previously. This comes on top of an aforementioned tightening in lending standards. Indeed, some commentators now believe the stresses in the banking system could morph into a credit crunch in the US.

- **ECB President Lagarde has also warned that the tensions seen over the past couple of weeks are not trivial and will not be without repercussions.** She noted the euro area economy could be facing a potentially less favourable economic environment due to lower growth, with weaker loan demand and higher bank funding costs also. Meanwhile, the OECD in its latest update, observed that higher rates could continue to expose underlying financial vulnerabilities, with potential for rising loan defaults, most notably in weaker low-income countries, where signs of debt distress are becoming increasingly evident. Broader financial contagion, though, from recent events has been limited so far, with central banks noting that the banking system remains strong in terms of its capital and liquidity positions.

- **The rapid withdrawal over the past year of the very loose monetary conditions in place for the previous decade was always likely to cause problems in parts of the financial system** as mismanagement and bad investment decisions were exposed when rates rose. The job of central banks has become even more difficult as they seek to bring down inflation, maintain financial stability and avoid excessive damage to the real economy. However, recent events will have a deflationary impact on economies. Oil and gas prices have fallen further, and are now well below the levels that prevailed ahead of the Russian invasion of Ukraine. Global food commodity prices are continuing to fall. Forecasts of 3% CPI rates by the end of the year are becoming more common, with expectations of further falls in inflation in 2024. An improving inflation outlook, as well as the likely negative impact on activity from recent events, supports the much lower trajectory for interest rates evident in the past fortnight.



- **This week, we will inflation data updates in the US and Eurozone.** In the Eurozone, headline HICP edged lower to 8.5% in February, down from 5.6% in January and a peak of 10.6% last October. The fall in headline HICP largely reflects a sharp decline in energy prices. The ex-food, energy, alcohol and tobacco rate accelerated to 5.6% from 5.3%. The consensus is for headline inflation to fall sharply to 7.2% in March, but in a similar pattern to recent months, core inflation is expected to rise, to 5.7%. In this regard, in its most recent set of staff projections, the ECB revised lower its estimate of headline inflation for this year, and revised higher its core inflation forecast.

- **Core inflation, as measured by core-PCE has been edging lower in recent months, albeit very slowly.** It fell from 5.2% in September to 4.6% by year end, before bucking the trend and inching higher to 4.7% in January. For February, core-PCE is projected to be unchanged at 4.7%. The latest Summary of Economic projections shows the Fed believes inflation will be slow to fall back to its 2% target, with core-PCE expected to ease to 3.6% by Q4 this year, and to 2.6% in Q4 2024.

- **Meanwhile, a slew of bloc-wide and national sentiment data will feature in the Eurozone this week.** The EC sentiment indices and the German Ifo are forecast to improve slightly further in March. Elsewhere, the Eurozone unemployment rate is expected to be unchanged, at 6.7% in February. **In the US, personal consumption is projected to have risen by 0.3% in nominal terms in February, in-line with personal income.** However, it is envisaged that the conference board measure of consumer confidence deteriorated slightly in March.

Interest Rate Forecasts

	Current	End Q2 2023	End Q3 2023	End Q4 2023
Fed Funds	4.875	5.125	5.125	4.625
ECB Deposit	3.00	3.50	3.50	3.50
BoE Repo	4.25	4.50	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 Q2 2023	End Q3 2023	End Q4 2023
EUR/USD	1.0753	1.09	1.11	1.13
EUR/GBP	0.8799	0.88	0.88	0.88
EUR/JPY	140.34	138	137	136
GBP/USD	1.2217	1.24	1.26	1.28
USD/JPY	130.50	127	123	120

Current Rates Reuters, Forecasts AIB's ERU

AIB

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ECONOMIC DIARY

Monday 27th - Friday 31st March

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	**ECB Speakers:**		Schnabel (Mon); **Lagarde** (Tue); Schnabel (Wed); **Lagarde** (Fri)		
	BoE Speakers:		**Bailey** (Mon)		
	Fed Speakers:		Jefferson (Mon); Barr (Tue); Barr (Wed); Collins, Barkin (Thu); Waller, Williams, Cook (Fri)		
Mon 27th	**JPN:**	06:00	Leading Indicator Revised (January)	-0.4	
	EU-20:	09:00	M3 Annual Money Growth (February)	(+3.5%)	(+3.2%)
	GER:	09:00	Ifo Business Climate (March)	93.9	94.1
Tue 28th	**FRA:**	07:45	INSEE Business Climate (March)	103	102
	ITA:	10:00	ISTAT Business Climate (March)	102.8	102.5
	ITA:	10:00	ISTAT Consumer Confidence (March)	104.0	104.0
	US:	15:00	Case-Shiller House Prices (January)	-0.5% (+4.6%)	
	US:	15:00	Consumer Confidence (March)	102.9	100.5
Wed 29th	**GER:**	07:00	Gfk Consumer Sentiment (April)	-30.5	-29.0
	FRA:	07:45	Consumer Confidence (March)	82	81
	ITA:	09:00	Unemployment Rate (February)	7.9%	
	UK:	09:30	Mortgage Approvals (February)	+39,637	+40,500
	IRL:	***11:00***	***Retail Sales (February)***	***+0.1% (+3.0%)***	***+0.3% (+2.6%)***
Thu 30th	**SPA:**	08:00	Flash HICP (March)	+0.9% (+6.0%)	(+4.3%)
	EU-20:	10:00	EC Economic Sentiment (March)	99.7	100.0
			- Consumer / Industrial / Services	-19.2 / 0.5 / 9.5	-19.2 / 0.2 / 10.0
	GER:	13:00	Flash HICP (March)	+1.0% (+9.3%)	+0.8% (+7.5%)
	US:	13:30	GDP (Q4: Final Reading)	+2.7 s.a.a.r.	+2.7% s.a.a.r.
	US:	13:30	PCE Prices (Q4: Final Reading)	+3.7% s.a.a.r.	+3.7% s.a.a.r.
			- Core Prices	+4.3% s.a.a.r.	+4.3% s.a.a.r.
	US:	13:30	Initial Jobless Claims (w/e 20th March)	+191,000	
Fri 31st	**JPN:**	00:30	Jobs/Applicants Ratio (February)	1.35	1.36
	JPN:	00:30	Unemployment Rate (February)	2.4%	2.4%
	JPN:	00:30	Industrial Production (February)	-5.3% (-3.8%)	+2.7% (-%)
	JPN:	00:30	Retail Sales (February)	(+6.3%)	(+5.8%)
	GER:	07:00	Retail Sales (February)	-0.3% (-6.9%)	+0.5% (-%)
	UK:	07:00	GDP (Q4: Final Reading)	+0.0% (+0.4%)	+0.0% (+0.4%)
	FRA:	07:45	Flash HICP (March)	+1.1% (+7.3%)	+1.0% (+6.7%)
	EU-20:	10:00	Flash HICP (March)	+0.6% (+8.5%)	(+7.2%)
			- Ex-Food & Energy	(+7.4%)	
			- Ex-Food, Energy, Alcohol, Tobacco	(+5.6%)	(+5.7%)
	EU-20:	10:00	Unemployment Rate (February)	6.7%	6.7%
	ITA:	10:00	Flash HICP (March)	+0.1% (+9.8%)	+0.8% (+8.5%)
	IRL:	***11:00***	***Flash HICP Inflation (March)***	***+1.5% (+8.1%)***	***+0.5% (+6.7%)***
	US:	13:30	Personal Income / Consumption (February)	+0.6% / +1.1%	+0.3% / + 0.3%
	US:	13:30	PCE Prices (February)	+0.6% (+5.4%)	
			- Core-PCE Prices	+0.6% (+4.7%)	+0.4% (+4.7%)
	US:	13:30	Final Uni. Michigan Consumer Sentiment (Mar)	63.4	63.4

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