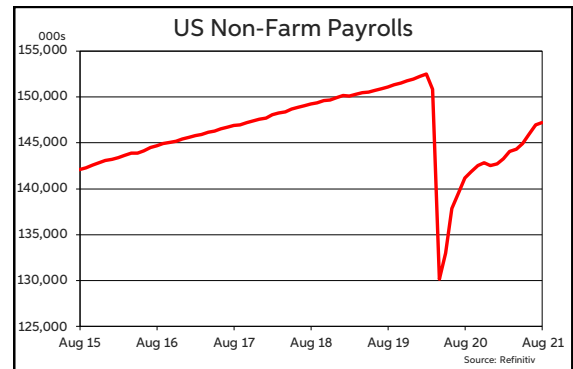


Testing Times Ahead for Markets

- Risk aversion and increased volatility returned to financial markets during the past week, as slowing growth and rising inflationary pressures triggered losses for both equities and bonds.** The moves, though, need to be put into context. The setback on equity markets has been very modest when set against the large gains they have made over the past year. Meantime, although bond yields have spiked upwards, apart from UK gilts, they have not hit the peaks seen in the market sell-off earlier in the year. However, with markets at elevated levels and growing uncertainty regarding the economic outlook, some choppy waters could lie ahead. The risk averse mood in markets has spilled over into currencies, with the dollar making significant gains in the past week. Both the euro and yen have fallen to their lowest levels year-to-date against the US currency.
- It has not helped the mood music in markets that leading central bankers have acknowledged over the past week that the disruptions to global supply chains seem likely to last longer than had been expected earlier in the year.** This could keep inflation elevated for a more extended period than previously envisaged. Indeed, Fed Chair Powell said it is frustrating to see that bottlenecks and supply chain problems are not getting better and, in fact, “at the margin apparently getting a little bit worse”. If high inflation lasts long enough, it could start to push up inflation expectations and spill over into higher wage demands, and other second round inflationary effects. Central bankers have indicated that they will be keeping a very close look out for any such developments.
- While inflation now seems likely to remain elevated for a longer than expected period, central bankers reiterated their view that the spike will still prove temporary.** They expect price pressures to moderate over the course of next year, allowing annual inflation rates to start moving down. It is just going to take somewhat longer for inflation to return to its target level. The Fed Chairman has pointed to the tension that now exists between high inflation and the still considerable slack in the labour market in terms of meeting the central banks dual policy objectives. Managing these competing forces, Mr Powell indicated “is going to be very challenging” over the next couple of years.
- There is no indication, though, that central banks have been unnerved by the rise in inflationary pressures.** Apart from the Bank of England, markets are not expecting any rate hikes from the main central banks over the coming twelve months. By that time, inflation should have eased back considerably, with annual rates starting to decline in the spring. If not, then greater than expected tightening by central banks is likely to be on the cards. The next few months, though, are going to be testing for financial markets. Inflation is set to rise further in Europe. Energy prices are likely to remain elevated over the winter. Lengthening supply chains and bottlenecks as well as labour shortages in some sectors will remain the order of the day. In these circumstances, there may be increased volatility on stock markets, more upward pressure on bond yields, while the dollar is likely to remain well underpinned.
- This week, the focus will be firmly on the labour market side of the Fed’s mandate, as the latest non-farm payrolls data are due.** Over the summer months conditions in the labour market improved considerably in the US. However, having increased at an average pace of 876k in the three months to July, payrolls growth slowed substantially to just 235k in August. The slowdown was most acute in sectors most sensitive to the pandemic, like hospitality. The consensus is for payrolls to rise by 500k in September, although, this would still leave them circa 4.8m below their pre-Covid level. Even so, the Fed believes that conditions in the labour market will continue to improve in the months ahead. Indeed, Chair Powell noted in the post-FOMC press conference in September that barring a major downside surprise to payrolls this Friday, the Fed is likely to announce a start to tapering at its next meeting in November.
- Meanwhile, the unemployment rate is projected to edge lower to 5.1% in September from 5.2%.** Elsewhere, the non-manufacturing ISM is expected to decline, albeit from an elevated level, to 59.8 in September from 61.7 in August, down from its peak of 64.1 in July.
- In the Eurozone, the minutes from the September monetary policy meeting will be released.** On a national level, German industrial output is forecast to fall by 0.5% in August as supply constraints continue to dampen activity in the sector. In the UK this week, house price data for September are the only release of note.



	Interest Rate Forecasts			
	Current	End Q4 2021	End Q1 2022	End Q2 2022
Fed Funds	0.125	0.125	0.125	0.125
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	1.1600	1.15	1.14	1.13
EUR/GBP	0.8552	0.86	0.85	0.84
EUR/JPY	128.65	129	129	129
GBP/USD	1.3564	1.34	1.34	1.35
USD/JPY	110.89	112	113	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	de Guindos, Lagarde (Tue); Lane, Schnabel (Thu); Panetta (Fri)		
	BoE Speakers:	Ramsden (Mon)		
	Fed Speakers:	Bullard (Mon); Williams, Mester (Thu)		
Mon 4th	EU-19:	09:30 EU Sentix Index (October)	19.6	19.0
	US:	15:00 Factory Orders (August)	+0.4%	+0.9%
		- Ex-Transport	0.8%	
	IRL:	16:30 Exchequer Returns (September)	Sep'20: -€9.4bn	-€6.2bn
Tue 5th	JPN:	00:30 CPI (September)	(-0.4%)	
		- Ex-Food & Energy	(+0.0%)	(+0.2%)
	IRL:	01:01 AIB Services PMI (September)	63.7	
	FRA:	07:45 Industrial Output (August)	+0.3%	+0.4%
	FRA:	08:50 Final Markit Composite PMI (September)	55.1	55.1
	ITA:	08:50 Markit Composite PMI (September)	59.1	59.1
	GER:	08:55 Final Markit Composite PMI (September)	55.3	55.3
	EU-19:	09:00 Final Markit Composite PMI (September)	56.1	56.1
		- Final Markit Services PMI	56.3	56.3
	UK:	09:30 Final Markit / CIPS Composite PMI (September)	54.1	54.1
		- Final Markit / CIPS Services PMI	54.6	54.6
	EU-19:	10:00 Producer Prices (August)	+2.3% (+12.1%)	+1.3% (+13.5%)
	US:	13:30 International Trade (August)	-\$70.1bn	-\$70.5Bn
	US:	14:45 Final Markit Composite PMI (September)	54.5	54.5
		- Final Markit Services PMI	54.4	54.4
	US:	15:00 Non-Manufacturing PMI (September)	61.7	59.8
Wed 6th	GER:	07:00 Industrial Orders (August)	+3.4%	-1.5%
	EU-19:	10:00 Retail Sales (August)	-2.3% (+3.1%)	+0.8% (+0.4%)
	IRL:	11:00 Unemployment Rate (September)	6.4%	6.4%
		- Covid-19 Adjusted Rate	12.4%	11.0%
	US:	13:15 ADP National Employment (September)	+374,000	+413,000
Thu 7th	UK:	07:00 Halifax House Prices (September)	+0.7% (+7.1%)	
	GER:	07:00 Industrial Output (August)	+1.0% (+5.7%)	-0.5% (+5.0%)
	FRA:	07:45 Trade Balance (August)	-€6.9bn	
		- Exports	€40.7bn	
	ITA:	09:00 Retail Sales (August)	-0.4% (+6.7%)	
	EU-19:	11:00 ECB Meeting Minutes (8-9th September)		
	US:	13:30 Initial Jobless Claims (w/e 27th September)	+362,000	+344,000
Fri 8th	JPN:	00:30 All Household Spending (August)	-0.9% (+0.7%)	-2.0% (-1.5%)
	JPN:	06:00 Economy Watchers Poll (September)	34.7	
	GER:	07:00 Trade Balance (August)	+€17.9bn	+€16.0bn
		- Exports	+0.5%	+0.5%
	US:	13:30 Non-Farm Payrolls (September)	+235,000	+500,000
		- Unemployment Rate	5.2%	5.1%
		- Average Earnings	+0.6% (+4.3%)	+0.4% (+4.6%)
	IRL:	23:59 Pre-Budget 2022 White Paper		

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

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