Weekly Market Brief

AIB Treasury Economic Research Unit

11th - 15th October 2021

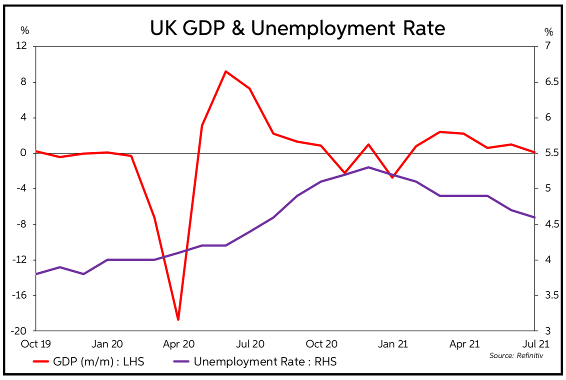
Cue for Action

- **Inflationary pressures continue to mount across the globe as evidenced by spiralling energy costs, as well as growing supply bottlenecks and labour shortages.** Economies are struggling to cope with meeting the surge in demand that has followed the lifting of Covid-19 restrictions. Markets have become more volatile as they start to price in monetary tightening by central banks to contain the threat to price stability. It is noteworthy that the greatest market concerns around inflation would appear to relate to the UK, as reflected in the recent rise in bond yields. Ten year benchmark yields have risen by around 30bps points since late August in both the US and Eurozone. The rise has been much more pronounced in the UK, with ten year Gilt yields rising by circa 60bps over the same period.

- **The UK suffered the deepest recession of the major economies as a result of the Covid-19 pandemic, with GDP declining by almost 10% last year.** Thus, one would have thought that the UK would be one of the last countries expected to raise rates as the economic recovery gets going. Far from it, though, as the UK is the only major economy that markets foresee implementing a series of rate hikes over the course of next year. Indeed, the Bank of England is expected to begin raising rates early in 2022, with two 25bps increases priced in by mid-year and close to another 25bps hike anticipated by year end. By contrast, markets are looking for just one 25bps hike from the Fed at end 2022, while rate increases are not expected to commence in the Eurozone until mid-2023.

- **The risks to price stability, though, are more acute in the UK than most other countries.** Despite the deep recession, the labour market appears to be tighter than elsewhere. The disruptions to supply chains also seem greater as evidenced by fuel shortages and concerns around supplies of many goods. There is little doubt that the dislocations to supply chains, trade and labour markets, caused by the pandemic, have been amplified by Brexit. The response of the UK government to the labour shortages is that wages need to rise, rather than relying on immigration, to boost employment. Without an accompanying rise in productivity though, this could give rise to a wage-price spiral, especially given the disruptions to supply chains, with the economy already facing considerable pent-up demand.

- **The forecasts are for the UK economy to slow sharply in 2023 as the surge in demand abates and monetary and fiscal policy are tightened.** GDP growth is projected at below 2% from 2023 onwards. The BoE expects inflation will have fallen back to around target by then. Hence, markets see UK rates levelling off at circa 1% post 2023. Sterling has been remarkably stable given the different forces buffeting the economy. It has remained within a very tight range against the euro since February. Normally firming rates should be supportive of a currency. However, rising inflationary pressures weigh on a currency, especially if excessive demand triggers a rising balance of payments deficit. Given the high level of uncertainty, sterling traders have remained on the side lines. However, history has shown sterling is capable of big moves in a short period of time.



- **The August reading of UK GDP will provide a timely update on the economy.** Growth all but stalled in July, rising by 0.1% as a surge in Covid-19 cases and the associated "pingdemic" weighed on activity. The consensus is for a 0.5% increase in August. Despite this though, the BoE still expects growth to be 1% lower in Q3 then they had previously guided. UK labour market data for August are also due, with the unemployment rate projected to fall to 4.5% from 4.6% in July. Overall, the labour market appears to be on a firm footing as the furlough scheme is wound down.

- **Meantime in the US, CPI inflation data for September are due.** Headline CPI has printed at elevated levels, above 5% for the past three months. In August underlying pressures abated slightly, though, as the monthly increase in core-CPI printed at 0.1%, its lowest level since February. This contributed to a fall in the yearly rate to 4% from 4.3%. The consensus is for headline CPI to remain at 5.3% in September. The core rate is expected to be unchanged also. Elsewhere, retail sales are projected to fall by 0.2% in September, declining for the third month in five, as weak auto sales weigh on spending. The Michigan measure of consumer sentiment is forecast to improve slightly in October.

- **There is a quieter look to the Eurozone schedule.** Industrial production is forecast to contract by 1.6% in August, as output in Germany in particular, remains constrained by component shortages. **Meanwhile on the home front, Budget 2022 will be released on Tuesday.** The budget deficit for 2021 is likely to come in well below forecast and a further marked decline in the deficit is expected in 2022.

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	1.1559	1.16	1.15	1.14
EUR/GBP	0.8488	0.86	0.85	0.84
EUR/JPY	129.36	129	129	129
GBP/USD	1.3618	1.35	1.35	1.36
USD/JPY	111.89	111	112	113

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 11th - Friday 15th October

AIB Treasury Economic Research

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Date	*UK & Irish Time*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde,** Panetta, Lane (Mon); Lane (Tue); **Lagarde,** Panetta (Wed)		
	BoE Speakers:		Cunliffe (Mon)		
	Fed Speakers:		Evans (Mon); Bostic (Tue); Brainard, Bowman (Wed); Bostic, Barkin, Williams, Harker (Thu) Williams (Fri)		
	IMF:		**World Economic Outlook (October 2021)**		
Mon 11th	**ITA:**	09:00	Industrial Output (August)	+0.8% (+7.0%)	-0.3% (-0.7%)
Tue 12th	**UK:**	00:01	BRC Retail Sales (September)	(+1.5%)	
	UK:	07:00	ILO Employment (August)	+183,000	
			- Unemployment Rate (August)	4.6%	4.5%
	UK:	07:00	Average Weekly Earnings (3mnths to August)	(+8.3%)	(+7.0%)
			- Ex-Bonus	(+6.8%)	(+5.9%)
	UK:	07:00	Claimant Count (September)	-58,600	
	GER:	10:00	ZEW Economic Sentiment (October)	26.5	24.0
	US:	11:00	NFIB Business Optimism (September)	100.1	
	US:	15:00	JOLTS Job Openings (August)	10.9m	
	IRL:		***Budget 2022***		
Wed 13th	**JPN:**	00:50	Machinery Orders (August)	+0.9% (+11.1%)	+1.7% (+14.7%)
	UK:	07:00	GDP (August)	+0.1% (+7.5%)	+0.5% (+6.7%)
	UK:	07:00	Industrial Output (August)	+1.2% (+3.8%)	+0.2% (+3.0%)
			- Manufacturing	+0.0% (+6.0%)	+0.0% (+5.6%)
	UK:	07:00	Goods Trade Balance (August)	-£12.7Bn	-£12.0Bn
			- Non-EU	-£7.0Bn	
	GER:	07:00	Final HICP (September)	+0.3% (+4.1%)	+0.3% (+4.1%)
	EU-19:	10:00	Industrial Production (August)	+1.5% (+7.7%)	-1.6% (+4.9%)
	US:	13:30	CPI (September)	+0.3% (+5.3%)	+0.3% (+5.3%)
			- Core	+0.1% (+4.0%)	+0.2% (+4.0%)
	US:	19:00	FOMC Meeting Minutes (21-22nd September)		
Thu 14th	**US:**	00:01	RICS Housing Survey (September)	73	
	CHINA:	02:30	PPI (September)	(+9.5%)	(+10.5%)
	CHINA:	02:30	CPI (September)	+0.1% (+0.8%)	+0.3% (+0.9%)
	JPN:	05:30	Industrial Output (August)	-3.2% (+7.1%)	
	IRL:	***11:00***	***CPI (September)***	***+0.6% (+2.8%)***	***+0.1% (+3.3%)***
	IRL:	***11:00***	***Residential Property Prices (August)***	***+1.7% (+8.6%)***	***+1.0% (+9.5%)***
	US:	13:30	Initial Jobless Claims (w/e 4th October)	+326,000	
	US:	13:30	PPI Final Demand (September)	+07% (+8.3%)	+0.6% (+8.8%)
			- Ex-Food & Energy	+0.6% (+6.7%)	+0.5% (+7.1%)
Fri 15th	**FRA:**	07:45	Final HICP (September)	-0.2% (+2.7%)	-0.2% (+2.7%)
	ITA:	09:00	Final HICP (September)	+1.4% (+3.0%)	+1.4% (+3.0%)
	EU-19:	10:00	Total Trade Balance (August)	€20.7Bn	
	US:	13:30	NY Fed / Empire State Index (October)	34.3	25.0
	US:	13:30	Retail Sales (September)	+0.7% (+15.1%)	-0.2% (+12.4%)
			- Ex-Autos	+1.8%	+0.5%
			- Ex-Gas & Autos	+2.0%	
	US:	15:00	Preli. Michigan Consumer Sentiment (Oct.)	72.8	73.7

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