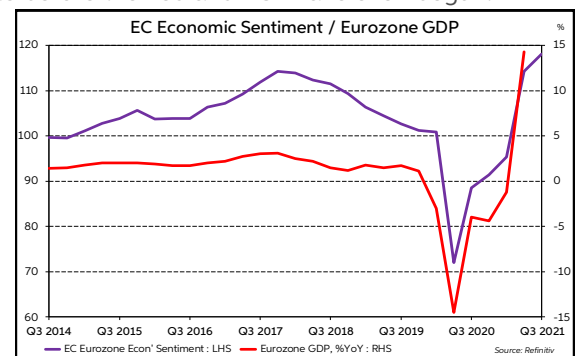


Bankers Differ, Markets Cry

- Autumn updates on the outlook for the global economy have been published in recent weeks by the IMF and OECD.** These show little change to their growth forecasts for 2021 and 2022 compared to their mid-year projections, with the world economy expected to expand by close to 6% this year and 4.5-5% next year. However, the updates strike a far more cautious tone, acknowledging that the recovery has lost some momentum, while the risks to the outlook are rising. The IMF notes that Covid-19 health risks still abound, with the ongoing pandemic holding back a return to full economic normalcy. Pandemic related disruptions to global supply chains and Covid's impact on labour markets are acting as a drag on the pace of recovery. On the other hand, both these factors, alongside the release of pent-up demand and a rebound in commodity prices, especially in the energy sector, have caused inflation to surge this year.
- Central banks confronting rising inflation against the backdrop of subdued employment levels and increasing downside risks to growth, are facing difficult policy choices.** The IMF says that policy trade-offs have become more complex, especially given the high level of uncertainty around the inflation outlook, and growth prospects. Given this level of uncertainty, one would think that central banks would proceed cautiously, particularly until there is more clarity in regard to underlying inflation pressures and price dynamics. Such clarity is unlikely to emerge before spring.
- The risk of significant policy errors is rising in this regard, as central banks start to diverge in their views on inflation and the appropriate stance of monetary policy.** The ECB is still strongly of the view that the sharp rise in inflation will prove transitory. Thus, it is winding down its asset purchases at a very slow pace, while sending signals that any rate rises are a long way down the road. The US Federal Reserve is set to begin tapering its QE asset purchase programme next month, with a view to ending it completely around the middle of next year. Rates would then seem likely to start to be hiked in about a year's time, from next autumn, as the Fed is patient about inflation.
- By contrast, the BoE has become a lot more perturbed about inflation since its last policy meeting a month ago, when the MPC voted by 7-2 to continue with its bond buying programme until the end of the year.** Now it is signalling that rates will have to start rising soon, possibly as early as November. This has sent UK interest rate markets into a frenzy. Futures contracts are discounting that rates could be hiked from 0.1% at present to 1% by next summer, with a further 25bps rise possible later in 2022. Such tightening risks killing off the economic recovery, with fiscal tightening also on the cards. Notably, no further UK rate hikes are envisaged by markets post 2022, long dated gilt yields have moved lower recently, while sterling remains range bound. In our view, while early rate hikes now look likely, the markets would seem to have priced in too much tightening for next year. Indeed, current expectations are that the BoE will have largely completed its rate tightening cycle before the Fed and ECB have even begun.
- First up in the next round of central bank meetings is the ECB, out later this week.** Although, no changes to monetary policy are anticipated. All eyes will be on the press conference, where President Lagarde will likely face questions regarding the recent firming of rates expectations and the transitory nature of inflation. Investors will also be paying close attention to any hints on the path of asset purchases under the PEPP and APP programmes.
- Data-wise, the first reading of Eurozone Q3 GDP will be released.** So far this year the Eurozone economy has performed better than expected. The forecast is for output to rise by 2% in the quarter, as economies continued to re-open more fully. Meantime, the EC sentiment indices for October will provide a more timely update on the Euro-area, with a small fall in the headline index expected. The German Ifo is also projected to decline. In terms of inflation, the October reading of HICP will garner close attention. In September, prices were 3.4% higher on a year-on-year basis owing to base effects and rising energy prices. A 0.5% increase is pencilled in for October, enough to lift the annual rate to 3.7%.
- Q3 GDP and inflation data dominate the US docket also.** Starting with GDP, data from the third quarter suggest that US growth has lost considerable momentum since mid-year. GDP is forecast to rise by an annualised rate of 2.5%, compared to 6.3% and 6.7% in Q1 and Q2, respectively. Meanwhile, in terms of inflation, the Employment Cost Index is projected to rise by 0.9% in Q3, compared to 0.7% in Q2. It is envisaged that the September reading of core-PCE inflation edged slightly higher to 3.7% from 3.6%. Finally, consumer confidence is expected to have inched lower in October. **There is a quiet data schedule in the UK, where Chancellor Sunak will present the Budget on Wednesday.**



	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	0.35	0.60	0.60
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	1.1644	1.16	1.15	1.14
EUR/GBP	0.8454	0.84	0.84	0.83
EUR/JPY	132.36	132	131	130
GBP/USD	1.3773	1.38	1.37	1.37
USD/JPY	113.65	114	114	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:	Tenreyro (Mon); Mann (Tue)		
	Fed Speakers:			
Mon 25th	IRL:	October Bank Holiday (Market Holiday)		
	GER:	09:00 German Ifo (October)	98.8	97.9
Tue 26th	UK:	11:00 CBI Distributive Trades (October)	11	
	US:	14:00 Case-Shiller House Prices (August)	+1.5% (+19.9%)	
	US:	15:00 Consumer Confidence (October)	109.3	108.3
	US:	15:00 New Home Sales (September)	+0.74m / +1.5%	+0.76m / +2.0%
Wed 27th	GER:	07:00 Gfk Consumer Sentiment (November)	0.3	-0.5
	FRA:	07:45 Consumer Confidence (October)	102	100
	EU-19:	09:00 M3 Annual Money Growth (September)	+7.9%	+7.5%
	UK:	12:30 Budget 2022		
	US:	13:30 Durable Goods (September)	+1.8%	-1.0%
		- Ex-Transport	+0.3%	+0.3%
Thu 28th	JPN:	00:50 Retail Sales (September)	(-3.2%)	(-2.3%)
	SPA:	08:00 Flash HICP (October)	+1.1% (+4.0%)	+1.2%(+5.2%)
	GER:	08:55 Unemployment Rate (October)	5.5%	5.4%
	ITA:	09:00 Consumer Confidence (October)	119.6	118.5
	ITA:	09:00 ISTAT Business Confidence (October)	113.0	112.2
	EU-19:	10:00 EC Economic Sentiment (October)	117.8	116.9
		- Consumer / Industrial / Services	-4.8 / 14.1 / 15.1	-4.8 / 12.5 / 16.5
	IRL:	11:00 Retail Sales (September)	+3.5% (+6.0%)	+2.0% (+3.0%)
	EU-19:	12:45 ECB Refi Rate	+0.00%	+0.00%
		- Deposit Rate	-0.50%	-0.50%
	EU-19:	13:30 Press Conference		
	GER:	13:00 Flash HICP (October)	+0.3% (+4.1%)	+0.4% (+4.4%)
	US:	13:30 GDP (Q3: First Reading)	+6.7% S.a.a.r.	+2.5% S.a.a.r.
	US:	13:30 PCE Prices (Q3: First Reading)	+6.5% S.a.a.r.	
		- Core PCE Prices (Q3: First Reading)	+6.1% S.a.a.r.	+4.4% S.a.a.r.
	US:	13:30 Initial Jobless Claims (w/e 18th October)	+290,000	+290,000
	US:	15:00 Pending Home Sales (September)	119.5 / +8.1%	
Fri 29th	JPN:	00:01 BoJ Rate Decision Announcement	-0.10%	-0.10%
	JPN:	00:30 Jobs/Applicants Ratio (September)	1.14	1.14
	JPN:	00:30 Unemployment Rate (September)	2.8%	2.8%
	JPN:	00:50 Industrial Output (September)	-3.6% (+7.1%)	-3.2% (+0.0%)
	FRA:	06:30 GDP (Q3: First Reading)	1.1% (+18.7%)	+2.1% (+2.1%)
	FRA:	07:45 Flash HICP (October)	-0.2% (+2.7%)	+0.3% (+3.1%)
	SPA:	08:00 GDP (Q3: First Reading)	+1.1% (+17.5%)	+2.6% (+3.5%)
	GER:	09:00 GDP (Q3: First Reading)	+1.6% (+9.4%)	+2.2% (+2.5%)
	ITA:	09:00 GDP (Q3: First Reading)	+2.7% (+17.3%)	+2.0% (+3.0%)
	UK:	09:30 Mortgage Approvals (September)	+74, 453	+72,500
	EU-19:	10:00 Flash HICP (October)	+0.5% (+3.4%)	+0.5% (+3.7%)
		- Ex-Food & Energy	+0.5% (+1.9%)	+0.5% (+1.9%)
	EU-19:	10:00 GDP (Q3: Flash Reading)	+2.2% (+14.3%)	+2.0% (+3.5%)
	ITA:	10:00 Flash HICP (October)	+1.3% (+2.9%)	+0.8% (+3.1%)
	US:	13:30 Personal Income / Consumption (September)	+0.2% / +0.8%	+0.1% / +0.5%
		- Core PCE Prices	+0.3% (+3.6%)	+0.2% (+3.7%)
	US:	13:30 Employment Cost Index (Q3)	+0.7%	+0.9%
	US:	15:00 Final Michigan Consumer Sentiment (October)	71.4	71.4

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