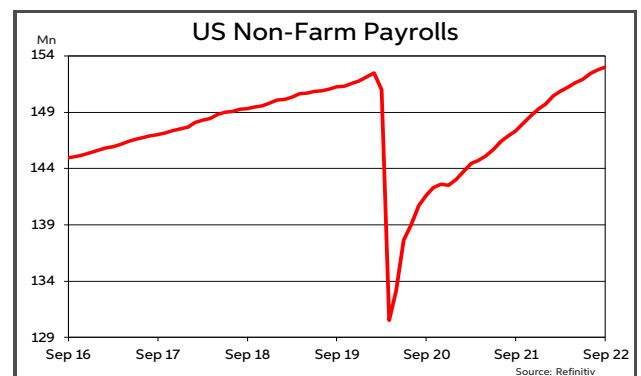


The 'R' word enters the equation

- **It would appear that the marked slowdown in the pace of global activity and growing risks of recession are beginning to weigh on the policy deliberations of central banks, despite continued very elevated readings for inflation.** Both the Reserve Bank of Australia and Bank of Canada delivered smaller than expected rate hikes at their recent monetary policy meetings. Meanwhile, although the ECB clearly indicated at its meeting on Thursday that further rate hikes are in the pipeline, it sent a strong signal that rates may not rise to the extent priced in by markets when it commented "it has made substantial progress in withdrawing monetary policy accommodation". The Bank of England also moved in the past couple of weeks to dampen down market expectations of very aggressive policy tightening by highlighting the severe damage that this would do to the UK economy.
- **The ECB meeting in particular had a significant impact on rate expectations across key markets.** Futures contracts now see the ECB deposit rate peaking at 2.75% next year rather than 3%. The anticipated peak in both US and UK rates was also scaled back from 5% to 4.75% in the aftermath of the ECB meeting. ECB President Lagarde, in her post meeting press conference, made direct reference to recession risks as something the central bank would take into consideration in deciding on monetary policy given the impact this would have on the future path of inflation. She also highlighted that monetary policy operates with a lag so the ECB would also be mindful of the impact the considerable tightening of policy to date will have on activity and inflation.
- **Attention is now turning to some key central banks meetings in the coming week to see what message they deliver.** The US Fed is widely expected to raise interest rates by 75bps for the fourth consecutive meeting. This would bring the Fed Funds target range up to 3.75-4.00%. Looking ahead, recent reports suggest this may be the last 75bps rate hike from the Fed this cycle, with a shift to smaller rate hikes expected in December. This would be consistent with the Fed interest rate dotplot from September, which envisaged the target range rising to 4.25-4.5% in December, before peaking at 4.75-5% in 2023. Current market pricing is broadly in-line with the dotplot, and consistent with a slowdown in the pace of rate hikes also. Market participants will be paying close attention to the post-meeting press conference for signals from Chair Powell that the Fed is indeed likely to proceed with smaller rate hikes from here.
- **The Bank of England is expected to join the club of those central banks who have implemented 75bps rate hike when it meets on Thursday.** In September, the BoE raised Bank rate by 50bps for the second time, but the MPC was badly split, with three of the nine member panel voting for 75bps, and one for just 25bps. Since then, a badly received UK mini-budget with subsequent many policy U-turns has complicated the outlook for the BoE. The Fiscal Statement has also now been pushed back to November 17th. In the aftermath of the aforementioned mini-Budget at the end of September, market rate expectations hardened significantly, with UK rates projected to be increased by as much as 150bps at this meeting, before going on to peak at 6% in 2023.
- Following the appointment of a new PM and Chancellor, and a significant change in tack on fiscal policy from the Government, as well as comments from a number of BoE officials, a more modest **75bps rate rise is now expected at Thursday's MPC meeting, with a move back to smaller hikes thereafter.** At the press conference Governor Bailey can expect to face a number of questions on the BoE's QT programme, which starts on Tuesday, as well as where the MPC believes the likely peak in the Bank rate lies. The updated Monetary Policy Report will also garner close attention, especially the GDP forecasts for 2023 and 2024. The August MPR projected that UK GDP would fall by 1.0-1.5% in 2023.
- **Away from monetary policy, there is a busy data schedule next week.** In the US, the latest US labour market report is due. The consensus is for another solid increase in non-farm payrolls of 220k in October. Meanwhile, the unemployment rate is forecast to edge slightly higher to 3.6%. Average hourly earnings are projected to rise by 0.3% for the third month running. Elsewhere, both the manufacturing and non-manufacturing ISMs are expected to fall in October but remain at or above 50.
- **In the Eurozone, flash GDP and HICP inflation data feature.** The preliminary reading of Q3 GDP from Germany was better than expected, at 0.3% q/q (vs. f'cast for -0.2%). The consensus for the Eurozone aggregate number is for a modest 0.2% q/q expansion in Q3. Meantime, a slight fall in the headline HICP inflation to 9.8% from 9.9% is anticipated in October, although the risk to this forecast is heavily tilted to the upside given poor German, French and Italian data.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
	2022	2022	2023	2023
Fed Funds	3.125	4.375	4.625	4.625
ECB Deposit	1.50	2.00	2.75	2.75
BoE Repo	2.25	3.75	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 Q4	End Q1	End Q2
	2022	2022	2023	2023
EUR/USD	0.9973	0.96	0.99	1.02
EUR/GBP	0.8625	0.89	0.90	0.90
EUR/JPY	147.24	142	148	151
GBP/USD	1.1560	1.08	1.10	1.13
USD/JPY	147.60	148	149	148

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday October 31st - Friday 4th November

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lane (Mon); Lagarde , Panetta, McCaul (Thurs), Lagarde , de Guindos, Enria (Fri)		
	BoE Speakers:				
	Fed Speakers:				
Mon 31st	IRL:		Market Holiday (October Bank Holiday)		
	GER:	07:00	Retail Sales (September)	-1.3% (-4.3%)	-0.3%
	ITA:	09:00	GDP (Q3: Preliminary Reading)	+1.1% (+4.7%)	0.0% (+1.9%)
	EU-19:	10:00	Flash HICP (October)	(+9.9%)	(+9.8%)
			- Ex-Food & Energy	(+6.0%)	(+6.0%)
	EU-19:	10:00	GDP (Q3: Flash Reading)	+0.8% (+4.1%)	+0.2% (+2.1%)
Tue 1st	IRL:	01:01	AIB Manufacturing PMI (October)	51.5	
	UK:	09:30	Final S&P /CIPS Manufacturing PMI (October)	45.8	45.8
	US:	13:45	Final S&P Manufacturing PMI (October)	49.9	49.9
	US:	14:00	Manufacturing ISM (October)	50.9	50.0
	US:	14:00	JOLTS Job Openings (September)	10.05mn	
Wed 2nd	GER:	07:55	Unemployment Rate (October)	5.5%	5.5%
	EU-19:	09:00	Final S&P Manufacturing PMI (October)	46.6	46.6
	US:	12:15	ADP National Employment (October)	+208,000	+198,000
	IRL:	16:30	Exchequer Returns (October)	-€7.4bn	+€7.5 bn
	US:	18:00	Fed Interest Rate Decision		
			- Fed Funds Target Range	3.00-3.25%	3.75-4.00%
	US:	18:30	Fed FOMC Press Conference		
Thu 3rd	IRL:	01:01	AIB Services PMI (October)	54.1	
	ITA:	08:00	Unemployment Rate (September)	7.8%	7.8%
	UK:	09:30	Final CIPS/S&P Composite PMI (October)	47.2	47.2
			- Final CIPS/S&P Services PMI (October)	47.5	47.5
	EU-19:	10:00	Unemployment Rate (September)	6.6%	6.6%
	IRL:	11:00	Unemployment Rate (October)	4.3%	4.3%
	UK:	12:00	BoE Interest Rate Decision	2.25%	3.00%
	UK:	12:30	BoE Press Conference		
	US:	12:30	Initial Jobless Claims (w/e 24th October)	217,000	
	US:	13:45	Final S&P Composite PMI (October)	47.3	47.3
			- Final S&P Services PMI	46.6	46.6
	US:	14:00	Non-Manufacturing ISM (October)	56.7	55.2
Fri 19th	FRA:	07:45	Industrial Output (September)	+2.4%	-0.6%
	ITA:	08:45	Final S&P Composite PMI (October)	47.6	
	FRA:	08:50	Final S&P Composite PMI (October)	50.0	50.0
	GER:	08:55	Final S&P Composite PMI (October)	44.1	44.1
	EU-19:	09:00	Final S&P Composite PMI (October)	47.1	47.1
			- Final S&P Services PMI	48.2	48.2
	EU-19:	10:00	Producer Prices (September)	+5.0% (+43.3%)	+1.7% (+42.0%)
	US:	12:30	Non-Farm Payrolls (October)	+263,000	+220,000
			- Unemployment Rate	3.5%	3.6%
			- Average Earnings	+0.3% (+5.0%)	+0.3% (+4.7%)

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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.

AIB
Treasury
Economic
Research

Oliver
Mangan
Chief
Economist

John Fahey
Senior
Economist

Daniel
Noonan
Economist