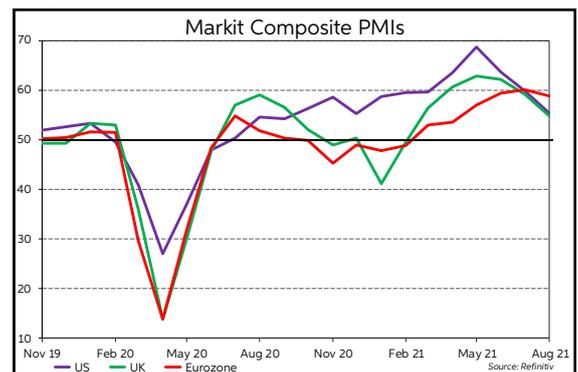


Life Gets Complicated for Central Banks

- **When the Covid pandemic triggered a very sudden and deep recession early last year, key central banks threw the proverbial monetary policy kitchen sink at the downturn, with rate cuts and enormous QE bond purchase programmes.** Despite a sharp rise in inflation this year, central banks have been keen to emphasise their view that it will prove to be transitory, and in turn will not warrant a marked tightening of monetary policy. However, with a sharp rebound in activity taking hold on the back of successful vaccine rollout programmes, speculation over recent months has been on when some of the flow through the monetary stimulus tap may be slowed. Already this month, we have seen the ECB announce a recalibration of its main asset purchase programme. For much of the summer, though, attention had been centred on the US Fed and when it may taper its open-ended QE programme.
- **Therefore this week's FOMC meeting will receive close attention.** The minutes from its last meeting in July showed there was a wide ranging discussion on scaling back QE, but there were divergent views on the issue. Meanwhile, Fed Chair Powell gave few indications at his Jackson Hole speech at the end of August that any announcement was imminent. Another factor for the FOMC to contemplate in its policy deliberations is that some recent data, including on the labour market, which the Fed is now placing greater emphasis on, have printed below expectations, suggesting some loss of momentum in the US economic recovery. On top of this, there are the on-going risks posed by the Delta variant amid the still sizeable level of vaccine hesitancy in the country.
- **Therefore, the Fed may prefer to wait until October, after digesting some further updates on the labour market, before making any tapering announcement.** The Fed has been consistent in saying that it will give the market plenty of notice as to when tapering will actually come into effect. This month's meeting will also see the Fed provide an update to its staff macro and interest rate projections (i.e. 'dot plot'). In June, there was a hawkish shift in the dots, with the median projection for two 25bps hikes in 2023. Futures contracts indicate the market is also anticipating two 25bps hikes in 2023.
- **Turning to the BoE, at its previous meeting in early August, the MPC gave no signs that it was contemplating any near term tightening of policy.** However, it did note that all members agreed that some modest tightening of policy was likely over the next 2-3 years in order to meet its inflation target. More recently, Governor Bailey's appearance at the Treasury Select Committee struck a more hawkish tone. He commented that the MPC was evenly divided on whether the minimum conditions had been met to raise interest rates, while adding that he was among those who think they have. These comments helped to reinforce the market view that rates will start to rise next year in the UK, with futures contracts pricing in the timing of this before mid-2022. Therefore, this week's meeting will be looked to for further validation of the view. The MPC, though, has a tough balancing act. Inflation has accelerated more than anticipated and is likely to breach 4% before year end, while the labour market continues to tighten. Meantime, the Delta variant and associated rising infection numbers have seen the pace of economic recovery slow markedly since mid-year. Setting the correct policy course has become a lot more complicated for central banks.

- **As signs that the recovery may be slowing continue to mount, the September PMI data due this week will be watched with interest.** In August, the manufacturing PMI stayed firmly in expansion mode, but edged slightly lower in the US, the UK and the Eurozone as supply chains remained under severe pressure. Meanwhile, the services PMI also remained well above 50 in all three, but declined substantially in the US and UK. This was largely due to the aforementioned surge in the Delta variant and the fact these economies started to open before countries in the Eurozone did. The consensus is for both sector readings to hold steady in September, near to their current levels across the board.



- **Elsewhere, there is a slew of other survey data due in the Eurozone.** Consumer confidence is expected to deteriorate across the bloc for the third month running in September. Meantime, in terms of national survey data, the bellwether German Ifo, French INSEE and Italian ISTAT measures of business sentiment are due. In the US, we will get a raft of housing market data, including housing starts. In general, data for the housing market has been trending lower since peaking at the end of Q1. Meanwhile, in the UK, there is a quieter look to the data schedule this week. Finally, there are also central bank meetings in Japan, Switzerland, Norway and Sweden over the coming days.

	Interest Rate Forecasts			
	Current	End Q3 2021	End Q4 2021	End Q1 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	0.10	0.10
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 Q3 2021	End Q4 2021	End Q1 2022
EUR/USD	1.1742	1.17	1.16	1.16
EUR/GBP	0.8533	0.85	0.84	0.84
EUR/JPY	129.20	128	128	128
GBP/USD	1.3757	1.38	1.38	1.38
USD/JPY	110.03	109	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Schnabel (Mon); de Guindos (Tue); Lane (Fri)		
	BoE Speakers:	Tenreyro (Fri)		
	Fed Speakers:	Powell , Clarida, Mester, Bowman, George (Fri)		
Mon 20th	GER:	07:00 Producer Prices (August)	+1.9% (+10.4%)	+0.8% (+11.4%)
	US:	15:00 NAHB Homebuilder Sentiment (September)	75	74
Tue 21st	UK:	11:00 CBI Trends Orders (September)	18	
	US:	13:30 Housing Starts (August) - Building Permits	+1.53m / -7.0% +1.63m / +2.3%	+1.55m / +1.0% +1.60m / -1.8%
Wed 22nd	JPN:	00:10 BoJ Interest Rate Announcement	-0.10%	-0.10%
	EU-19:	15:00 Flash Consumer Confidence (September)	-5.3	-5.8
	US:	15:00 Existing Home Sales (August)	+5.99m / +2.0%	+5.88m / -1.8%
	US:	19:00 Fed Funds Rate Announcement	+0.00-0.25%	+0.00-0.25%
	US:	19:30 Fed Press Conference		
Thu 23rd	FRA:	07:45 INSEE Business Climate (September)	110	109
	SPA:	08:00 GDP (Q2: Final Reading)	+2.8% (+19.8%)	+2.8% (+19.8%)
	FRA:	08:15 Flash Markit Composite PMI (September)	55.9	56.0
	GER:	08:30 Flash Markit Composite PMI (September)	60.0	59.5
	EU-19:	09:00 Flash Markit Composite PMI (September) - Manufacturing / Services	61.4 / 59.0	60.5 / 58.7
	UK:	09:30 Flash Markit / CIPS Composite PMI (September) Manufacturing / Services	54.8 60.3 / 55.0	54.7 59.0 / 55.5
	UK:	12:00 BoE Interest rate Announcement (September)	+0.10%	+0.10%
	US:	13:30 Initial Jobless Claims (w/e 13th September)	+332,000	
	US:	14:45 Flash Markit Composite PMI (September) - Manufacturing / Services	55.4 61.1 / 55.1	55.3 61.1 / 54.9
Fri 24th	UK:	00:01 Gfk Consumer Confidence (September)	-8	-8
	JPN:	00:30 CPI (August) - Core	+0.2% (-0.3%) +0.2% (-0.2%)	+0.4% (+0.0%)
	JPN:	01:30 Flash Jibun Manufacturing PMI (September)	52.7	52.7
	ITA:	09:00 ISTAT Business Confidence (September)	113.4	112.6
	ITA:	09:00 Consumer Confidence (September)	116.2	115.4
	GER:	09:00 Ifo Business Climate (September)	99.4	98.9
	IRL:	11:00 Labour Force Survey (Q2) - Unemployment Rate	7.4%	7.0%
	US:	15:00 New Home Sales (August)	+0.71m / (+1.0%)	+0.71m / +0.3%

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