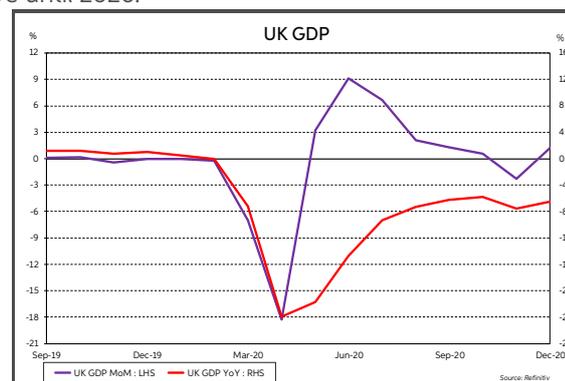


## Start Spreading the News

- The main central banks have been united in their efforts to assuage market concerns that monetary policy could be tightened early in this cycle to counter rising inflationary pressures.** Futures contracts have moved recently to price in that rates hikes could occur as early as the second half of next year in the US and UK. This has led to a marked rise in long term interest rates year-to-date. The upward pressure on bond yields represents an effective tightening of policy. This is the last thing monetary authorities want with economies still struggling to recover from the deepest global recession since the Great Depression of the early 1930s. Inflation is set to pick up this year as a result of a number of factors - the sharp rebound in oil prices, unwinding of last year's VAT cuts, and shortages of raw materials plus other inputs. A rebound in retail prices that were depressed during the pandemic, and likely margin widening in some services sectors as they re-open in the face of strong pent-up demand could also be on the cards. Central bankers argue that this rise in inflation will prove temporary and that prices are rising from a very low base. They point to the considerable degree of slack in the economy and labour markets, which should keep inflation in check.
- In particular, Fed speakers led by Chair Powell, have stressed repeatedly that the expected rise in inflation, which could see the annual rate move above its 2% target, should prove transitory and thus not trigger monetary tightening.** They highlight that payrolls are still some 9.5 million or 6% below pre-pandemic levels, which points to considerable weakness in the labour market. Meantime, we expect that the ECB's updated macroeconomic forecasts to be published on Thursday, will likely show inflation still well below target in 2022-23 after moving higher this year. The latest forecasts from the Bank of England are for the current very subdued UK CPI rate to pick up this year to its 2% target and remain around this level over the following couple of years. On this basis, the MPC concluded at its meeting last month that it does not need to tighten monetary policy until there is clear evidence that significant progress is being made on the elimination of spare capacity.
- Markets, though, would like to see some action from central banks, in the form of increased asset purchases, which would signal a real desire to keep long term rates low.** Disappointment that the Fed Chair did not signal such a move in an address this week saw a further rise in US bond yields. European yields, though, on this occasion did not follow suit. There is an expectation that the ECB could announce an acceleration in the pace of asset purchases at its policy meeting on Thursday to counteract the upward pressure on bond yields. In any event, markets think that any hike in Eurozone rates is still a long way off. ECB rates are not expected to be increased until 2024 and remain negative until 2026.
- The changing interest rate expectations have seen ten year Treasury yields rise to 1.6%, a jump of over 100bps since late last summer.** Meanwhile, the rise in ten year bond yields has been much more modest and they remain rooted in negative territory at around -0.3%. This widening interest rate spread has thrown the dollar a lifeline, after it lost considerable ground in the second half of 2020. The euro has dropped back below the \$1.20 level, with sterling moving back down below \$1.40. The market remains very short the US currency so it could make further gains. Thursday's ECB Council meeting will be important for both bond and currency markets. Action to try and stem the upward pressure on Eurozone yields could see the euro lose some further ground. There is, though, strong technical support for the single currency at around the \$1.16-1.18 level.
- Therefore, for the week ahead, the main focus will be on the aforementioned monetary policy meeting of the ECB.** Executive Board members commenting over the past few weeks on the recent rise in bond yields, have emphasised that loose financing conditions remain a priority for the central bank. With room to increase the pace of purchases under the flexible PEPP programme, the ECB may indicate that it will ramp up its level of bond buying. The latest ECB economic projections will also warrant close attention. Although, only minor revisions to the forecasts are expected, with growth for this year likely to be revised downwards, but inflation revised higher. However, at the press conference ECB President Lagarde is expected to reiterate that the rise in inflation is predominately due to base effects in the near term, and will therefore be transitory. **Data-wise, Eurozone industrial production for January is due.** The forecast is for production to have increased by 0.2% in the month. This would still leave output 2.1% below its pre-Covid level.
- In the UK, the January reading of GDP will be the highlight.** The forecast is for output to fall by 4.9% in the month, as the third national lockdown dampened economic activity. Industrial production is also expected to decline, albeit by a more modest 0.3%, partly due to an unwinding of pre-Brexit stockpiling. **In the US, there is also a quiet look to the data schedule.** CPI inflation for February will feature. The forecast is for the headline index to rise to 1.7% from 1.4%. The March reading of consumer sentiment (University of Michigan measure) is projected to rise to 78.0 from 76.8, a very subdued level still.



	Interest Rate Forecasts			
	Current	End Q1 2021	End Q2 2021	End Q3 2021
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 Q1 2021	End Q2 2021	End Q3 2021
EUR/USD	1.1916	1.20	1.22	1.24
EUR/GBP	0.8616	0.87	0.88	0.89
EUR/JPY	128.97	126	127	128
GBP/USD	1.3826	1.38	1.39	1.39
USD/JPY	108.22	105	104	103

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>			
	<b>BoE Speakers:</b>	<b>Bailey (Mon)</b>		
	<b>Fed Speakers:</b>			
<b>Mon 8th</b>	<b>JPN:</b> 00:30	Economy Watchers Poll (February)	31.2	
	<b>GER:</b> 07:00	Industrial Output (January)	+0.0% (-0.7%)	+0.2% (-0.5%)
	<b>EU-19:</b> 09:30	Sentix Index (March)	-0.2	1.0
	<b>JPN:</b> 23:50	GDP (Q4: Second Reading)	+3.0% (-4.8%)	+3.0% (-4.8%)
<b>Tue 9th</b>	<b>UK:</b> 00:01	BRC Retail Sales (February)	(+7.1%)	
	<b>GER:</b> 07:00	Trade Balance (January) - Exports	+€16.1bn +0.1%	
	<b>ITA:</b> 09:00	Industrial Output (January)	-0.2% (-2.0%)	+0.7%
	<b>EU-19:</b> 10:00	Employment (Q4: Revised Reading)	+0.3% (-2.0%)	+0.3% (-2.0%)
	<b>EU-19:</b> 10:00	GDP (Q4: Revised Reading)	-0.6% (-5.0%)	-0.6% (-5.0%)
	<b>US:</b> 11:00	NFIB Business Optimism (February)	95.0	
<b>Wed 10th</b>	<b>CHINA:</b> 01:30	PPI (February)	(+0.3%)	(+1.5%)
	<b>CHINA:</b> 01:30	CPI (February)	+1.0% (-0.3%)	+0.4% (-0.4%)
	<b>FRA:</b> 07:45	Industrial Output (January)	-0.8% (-3.0%)	+0.5% (-3.4%)
	<b>US:</b> 13:30	CPI (February) - Core	+0.3% (+1.4%) +0.0% (+1.4%)	+0.4% (+1.7%) +0.2% (+1.4%)
<b>Thurs 11th</b>	<b>UK:</b> 00:01	RICS Housing Survey (February)	50	
	<b>IRL:</b> 11:00	<b>CPI (February)</b>	<b>+0.1% (-0.2%)</b>	<b>+0.4% (-0.4%)</b>
	<b>EU-19:</b> 12:45	ECB Refi Rate Announcement (January) - Deposit Rate	+0.00% -0.50%	+0.00% -0.50%
	<b>EU-19:</b> 13:30	ECB Press Conference		
	<b>US:</b> 13:30	Initial Jobless Claims (w/e March 1st)	+745,000	+725,000
<b>Fri 12th</b>	<b>GER:</b> 07:00	Final HICP (February)	+0.6% (+1.6%)	+0.6% (+1.6%)
	<b>UK:</b> 07:00	GDP (January)	+1.2% (-6.5%)	-4.9% (-11.2%)
	<b>UK:</b> 07:00	Industrial Output (January) - Manufacturing	+0.2% (-3.3%) +0.3% (-2.5%)	-0.3% (-3.8%) -0.2% (-3.3%)
	<b>UK:</b> 07:00	Goods Trade Balance (January) - Non-EU	-£14.3bn -£5.2bn	-£13.5bn
	<b>SPA:</b> 08:00	Final HICP (February)	-0.6% (-0.1%)	-0.6% (-0.1%)
	<b>SPA:</b> 08:00	Retail Sales (January)	(-1.5%)	
	<b>EU-19:</b> 10:00	Industrial Production (January)	-1.6% (-0.8%)	+0.2% (-2.7%)
	<b>IRL:</b> 11:00	<b>Residential Property Prices (January)</b>	<b>+0.8% (+2.2%)</b>	<b>+0.0% (+2.1%)</b>
	<b>US:</b> 15:00	Prelim. Michigan Consumer Sentiment (March)	76.8	78.0

◆ Month-on-month changes (year-on-year shown in brackets)  
All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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