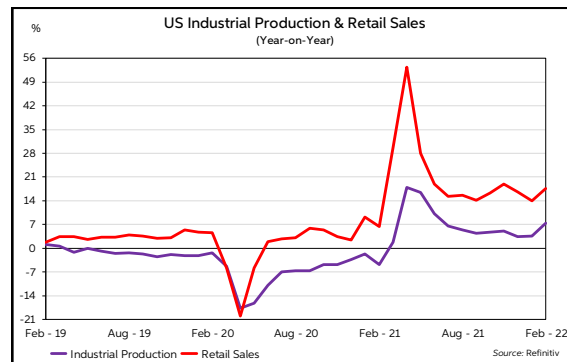


Price Pressures

- Irish inflation rose sharply as elsewhere in March, with the HICP rate climbing to 6.9% from 5.7% in February.** Energy prices rose by 15% in the month and were up 44% year-on-year. Utility prices rose 22% in the year, and this rate is set to accelerate sharply in the next couple of months, with further steep rises in gas and utility prices sanctioned. Excluding energy products, inflation was running at 3.7% in March. The Central Bank is forecasting that inflation may peak at around 8% in the coming months and average 6.5% for the year, with the ESRI forecasting an average rate of 6.7%.
- Inflation should fall steadily from Q3 2022 onwards as steep energy price increases in particular drop out of the annual rate.** There is disagreement, though, over the extent of the fall. The Central Bank is expecting inflation to decline sharply and average 2.8% in 2023 and then 2.1% in 2024. The ESRI, though, foresees inflation staying quite high, averaging 5.0% next year. The CBI expectation is in line with most other central banks, who see inflation falling back quite sharply. Eurozone inflation has risen to 7.5%, but last month's ECB forecast was for it to fall back to 2% next year. The BoE also foresees UK inflation falling back to 2.5% by end 2023, with both the BoE and OBR forecasting an average rate of comfortably below 2% in 2024. The Fed sees headline and core US PCE inflation falling to 2.6% by the final quarter of 2023 and continuing to decline thereafter towards 2%.
- Much will depend on the extent of second round price impacts and the degree of acceleration in wage inflation.** There is also much focus on food prices, with the war in Ukraine causing a marked rise in some food commodity prices. Irish food price inflation picked up to 3% by March from a sub 1% rate as recently as November. It looks set to climb much further over the remainder of this year. Wage inflation in most countries, though, has remained relatively well behaved to date, as the ECB has pointed out. The latest US wage data are encouraging despite the very tight labour market, with the annualised rate of growth in average hourly earnings slowing to circa 3% in the past couple of months. The present spike in inflation is unlikely to be sustained without a marked acceleration in wage growth. Slowing economic activity should also help dampen inflationary pressures.
- The minutes of the March policy meetings of both the ECB and Fed, though, show central bankers are becoming increasingly anxious about the extent of the rise in inflation and growing threat to price stability.** Thus, the Fed seems set to hike by 50bps next month, while some ECB Council members are starting to agitate for rate hikes to begin in the Eurozone as soon as the third quarter. Not surprisingly against this backdrop, ten year bond yields have surged by 80-100bps in many markets over the past month. It is likely to be next year, though, before it is clear whether or not inflation is a short-term consequence of some recent extraordinary events or has re-emerged as a more long-term problem.
- Elevated inflation across the Eurozone has complicated the ECB's task even more ahead of its latest monetary policy meeting this week.** There is considerable uncertainty regarding the economic outlook owing to the war in Ukraine. However, it is clear the risks to growth have increased to the downside, especially with high inflation putting pressure on real incomes. Against this uncomfortable economic backdrop, the ECB is expected to keep policy on hold, reiterating that net asset purchases will end in Q3, with rates likely to rise some time after that. Futures contracts suggest the market believes rate hikes will commence in September, with the deposit rate turning positive before year end. Investors will be paying close attention to the press conference to try and gain a clearer understanding of the ECB's reaction function. President Lagarde is likely to repeat that gradual policy normalisation will be appropriate, without getting tied into any specifics as the ECB seeks to maintain optionality amid the uncertain inflation and growth outlooks.
- In the US, the latest CPI inflation data are due this week.** Headline CPI is projected to rise by 1.1% in March lifting the year-on-year rate to 8.4% from 7.9%. The core rate is forecast to rise to 6.6% from 6.4% also. Meanwhile, retail sales and industrial production data will be released in the US for March. Both are expected to continue trending higher, as they have done throughout the quarter. The consensus is for a 0.5% increase in headline retail sales and a 0.4% rise in output in the month. Elsewhere, it is envisaged that the Michigan measure of consumer sentiment continued to edge lower in April, as inflation concerns continue to weigh on real household incomes
- There is a busy data docket in the UK also.** Similar to in the US, the main highlight will be the latest CPI inflation data for March. Continued price pressures are predicted to have pushed headline CPI to 6.7% from 6.2% currently, while the core rate is forecast to rise to 5.4% from 5.2%. Looking ahead, inflation is set to peak at around 8.5% in the UK in April. In terms of the labour market, the unemployment rate is expected to remain unchanged at 3.9% in February. However, the tight conditions in the labour market are expected to place further upward pressure on wages in the UK, with average earnings rising by 4.0% year-on-year. Meanwhile, the monthly reading of GDP is projected to rise by 0.3% in February.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2022			
Fed Funds	0.375	1.125	1.625	1.875
ECB Deposit	-0.50	-0.50	-0.50	-0.25
BoE Repo	0.75	1.25	1.50	1.50
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 Q2	End Q3	End Q4
	2022			
EUR/USD	1.0846	1.10	1.11	1.12
EUR/GBP	0.8340	0.84	0.84	0.85
EUR/JPY	135.00	135	137	137
GBP/USD	1.3002	1.31	1.32	1.32
USD/JPY	124.46	123	123	122

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:			
	Fed Speakers:	Bostic, Bowman, Evans (Mon); Brainard, Barkin (Tue); Mester, Harker (Thu)		
Mon 11th	CHINA:	02:30 CPI (March)	+0.6% (+0.9%)	-0.1% (+1.2%)
	CHINA:	02:30 PPI (March)	(+8.8%)	(+7.9%)
	UK:	07:00 Goods Trade Balance (February)	-£26.5bn	
	UK:	08:00 GDP (February)	+0.8% (+10.0%)	+0.3% (+9.5%)
		- 3m/3m	+1.1%	+0.9%
	UK:	08:00 Industrial Output (February)	+0.7% (+2.3%)	+0.3% (+2.2%)
		- Manufacturing Output (February)	+0.8% (+3.6%)	+0.4% (+3.0%)
Tue 12th	GER:	07:00 Final HICP (March)	+2.5% (+7.6%)	+2.5% (+7.6%)
	UK:	07:00 Unemployment Rate (February)	3.9%	3.9%
	UK:	07:00 Average Earnings (3 mnths to February)	(+4.8%)	(+5.4%)
		- Ex-Bonus	(+3.8%)	(+4.0%)
	UK:	07:00 Claimant Count (March)	-48,100	
	GER:	10:00 ZEW Economic Sentiment (April)	-39.3	-48.0
	EU-19:	10:00 ZEW Economic Sentiment (April)	-38.7	
	US:	11:00 NFIB Business Optimism (March)	95.7	
	US:	13:30 CPI (March)	+0.8% (+7.9%)	+1.1% (+8.4%)
		- Core	+0.5% (+6.4%)	+0.5% (+6.6%)
Wed 13th	JPN:	00:50 Machinery Orders (February)	-2.0% (+5.1%)	-1.5% (+14.5%)
	CHINA:	04:00 Trade Balance (March)	+\$115.9bn	+22.4bn
		- Exports	(+16.3%)	(+13.0%)
	UK:	07:00 CPI (March)	+0.8% (+6.2%)	+0.7% (+6.7%)
		- Core	+0.8% (+5.2%)	+0.5% (+5.4%)
	UK:	07:00 PPI Input Prices (March)	+1.4% (+14.7%)	
		- Output Prices	+0.7% (+10.1%)	
	SPA:	08:00 Final HICP (March)	+3.9% (+9.8%)	+3.9% (+9.8%)
	ITA:	09:00 Industrial Output (February)	-3.4% (-2.6%)	+1.5% (-1.3%)
	US:	13:30 PPI Final Demand (March)	+0.8% (+10.0%)	+1.1% (+10.5%)
		- Ex-Food & Energy	+0.2% (+8.4%)	+0.6% (+9.3%)
Thu 14th	IRL:	11:00 Residential Property Price Index (February)	+0.9% (+14.8%)	+0.7% (+15.2%)
	EU-19:	12:45 ECB Refi Rate Announcement	+0.00%	+0.00%
		- Deposit rate	-0.50%	-0.50%
	EU-19:	13:30 ECB Press Conference		
	US:	13:30 Retail Sales (March)	+0.3% (+17.6%)	+0.5% (+6.1%)
		- Ex-Autos	+0.2%	+1.0%
		- Ex-Gas & Autos	-0.4%	
	US:	13:30 Initial Jobless Claims (w/e 4th April)	+166,000	+175,000
	US:	15:00 Preli. University of Michigan (April)	59.4	58.8
Fri 15th	IRL/UK/US/Most EU: Good Friday (Market Holiday)			
	FRA:	07:45 Final HICP (March)	+1.6% (+5.1%)	+1.6% (+5.1%)
	ITA:	09:00 Final HICP (March)	+2.6% (+7.0%)	+2.6% (+7.0%)
	US:	13:30 NY Fed / Empire State Index (March)	-11.8	-0.50
	US:	14:15 Industrial Production (March)	+0.5%	+0.4%
		- Manufacturing Output	+1.2%	
		- Capacity Utilisation	77.6%	77.9%

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

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