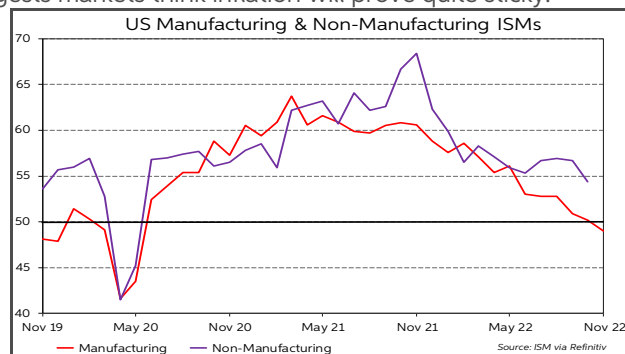


## A Sticky Situation

- Not surprisingly, the first drop in the annual rate of Eurozone inflation in 17 months to 10.0% in November from 10.6% in October has got a lot of attention.** It follows a similar fall in US CPI inflation to 7.7% in October from 8.2% in September, moving it further below the high of 9.1% hit in June. ECB President Lagarde told the European Parliament this week that we may have not reached the peak in inflation. However, with Brent oil prices declining to below \$90 a barrel, down from over \$120 in June, wholesale gas prices well off their summer peak and wholesale electricity prices falling sharply recently, we may indeed be past the peak in inflation. The Eurozone HICP rate could accelerate again in December, but it can be expected to fall sharply from the start of 2023 on positive basis effects as large monthly rises in 2022 drop out of the annual rate.
- That is not to sound the all clear.** The recent decline in headline inflation has been driven by falling energy prices. A fresh surge in gas prices in Europe next year cannot be ruled out if supply shortages emerge. Meantime, food price inflation continues to accelerate with the processed food, alcohol & tobacco sub-component of the Eurozone HICP rising by 1.3% in November, pushing the annual rate up from 12.4% to 13.6%. In the US, food prices rose by 0.7% in October with the annual rate accelerating to 10.9%. Thus, there continues to be marked upward pressures on retail food prices. It is encouraging, though, that food commodity prices have fallen back sharply since mid-year, which should eventually see CPI food price inflation moderate considerably.
- Energy and food prices are the two most volatile components of consumer prices.** Thus, considerable attention is put on core measures of inflation which exclude these two less stable items. Core inflation could prove much more sticky than headline and be slower to fall back. The HICP rate excluding food, energy, alcohol and tobacco was unchanged at 5% in November in the Eurozone. In the US, the Fed's preferred measure of core inflation, core PCE, has been generally stuck in a 4.9-5.1% range since April, coming in at 5% in October. In this regard, Fed Chair Powell this week highlighted that the continuing tight labour market could presage a long period where inflation remains elevated and responds only slowly to a restrictive monetary policy.
- The ECB is projecting, though, that both headline and core Eurozone inflation will decelerate to an average of 2.3% in 2024.** Meanwhile, both the BoE and OBR see UK inflation falling well below its 2% target by end 2024. By contrast, the latest OECD forecasts are that inflation in the Eurozone and UK could still be running at close to 3% by Q4 2024. Markets don't seem overly convinced that inflation will fall back to its 2% target in the foreseeable future. The OECD is forecasting very weak growth, with recession in some economies, for 2023-24, which should see monetary policy turn accommodative. However, futures contracts are pricing in that rates will be around 3.25% in the US, 3.75% in the UK, 2.25% in the Eurozone at end 2024. Given the weak economic outlook for 2023-24, rates would be expected to be much lower, if inflation had been vanquished in two years' time. It suggests markets think inflation will prove quite sticky.
- Turning to the week ahead, there is a relatively quiet data schedule on both sides of the Atlantic.** In the US, the non-manufacturing ISM will feature. Unlike the manufacturing survey though, crucially the index is projected to remain in expansionary territory, albeit falling to 53.1 from 54.4 in October. Elsewhere, it is envisaged that the University of Michigan measure of consumer sentiment will be unchanged in November, from the very low level of 56.8 recorded in October. Meanwhile, in terms of pipeline price pressures, producer prices are expected to ease for the seventh time in eight months, with the year-on-year rate declining to 7.2% from 8% in October.
- In the Eurozone, retail sales data for October are the main release of note.** The consensus is for a sharp fall of 1.7% in the month, led lower by a 2.8% drop in German retail sales, which have already been released. In Q3, Eurozone retail sales declined by 0.7%, following a 0.4% contraction in the second quarter, as rising inflation started to weigh on household spending. The weak start anticipated at the beginning of Q4 suggests this trend is intensifying. Elsewhere, in the Eurozone, the final reading of Q3 GDP is expected to confirm the economy expanded by 0.2% in the third quarter. In terms of some key national data releases, German industrial production, which has been particularly hampered by rising energy costs and supply chain issues since the onset of the war in Ukraine, is forecast to fall by 0.5% in October.
- There is a sparse data docket in the UK this week.** On the home front, the Exchequer Returns and CPI inflation for November are due. A very large budget surplus of €15bn is projected at end November.



|             | Interest Rate Forecasts |        |        |        |
|-------------|-------------------------|--------|--------|--------|
|             | Current                 | End Q4 | End Q1 | End Q2 |
|             | 2022                    | 2023   | 2023   | 2023   |
| Fed Funds   | 3.875                   | 4.375  | 5.125  | 5.125  |
| ECB Deposit | 1.50                    | 2.00   | 2.75   | 3.00   |
| BoE Repo    | 3.00                    | 3.50   | 4.25   | 4.25   |
| 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   | 2023   | 2023   | 2023   |
| EUR/USD | 1.0462                                       | 1.03   | 1.04   | 1.05   |
| EUR/GBP | 0.8571                                       | 0.86   | 0.87   | 0.88   |
| EUR/JPY | 141.74                                       | 143    | 142    | 142    |
| GBP/USD | 1.2203                                       | 1.20   | 1.20   | 1.19   |
| USD/JPY | 135.46                                       | 139    | 137    | 135    |

Current Rates Reuters, Forecasts AIB's ERU

| Date              | UK & Irish Time      | Release   | Previous                                       | Forecast               |                         |
|-------------------|----------------------|---|--|------------------------|-------------------------|
| <b>This Week:</b> | <b>ECB Speakers:</b> | <b>Lagarde, Panetta (Mon); de Guindos (Tue); Lane, Panetta (Wed); Lagarde (Thu)</b> |  |                        |                         |
|                   | <b>BoE Speakers:</b> |   |  |                        |                         |
|                   | <b>Fed Speakers:</b> |   |  |                        |                         |
| <b>Mon 5th</b>    | <b>IRL:</b>          | <b>01:01</b>  | <b>AIB Services PMI (November)</b>             | <b>53.2</b>            |                         |
|                   | <b>ITA:</b>          | 08:45   | S&P Composite PMI (November)                   | 45.8                   |                         |
|                   | <b>FRA:</b>          | 08:50   | Final S&P Composite PMI (November)             | 48.8                   | 48.6                    |
|                   | <b>GER:</b>          | 08:55   | Final S&P Composite PMI (November)             | 46.4                   | 46.4                    |
|                   | <b>EU-19:</b>        | 09:00   | Final S&P Composite PMI (November)             | 47.8                   | 47.8                    |
|                   |                      |   | - Final Services PMI (November)                | 48.6                   | 48.6                    |
|                   | <b>EU-19:</b>        | 09:30   | Sentix Index (December)                        | -30.9                  | -27.3                   |
|                   | <b>UK:</b>           | 09:30   | Final S&P / CIPS Composite PMI (November)      | 48.3                   | 48.3                    |
|                   |                      |   | - Final Services PMI (November)                | 48.8                   | 48.8                    |
|                   | <b>EU-19:</b>        | 10:00   | Retail Sales (October)                         | +0.4% (-0.6%)          | -1.7% (-2.6%)           |
|                   | <b>US:</b>           | 09:30   | Final S&P Composite PMI (November)             | 46.3                   | 46.3                    |
|                   |                      |   | - Final Services PMI (November)                | 46.1                   | 46.1                    |
|                   | <b>US:</b>           | 15:00   | Non-Manufacturing ISM (November)               | 54.4                   | 53.1                    |
| <b>Tue 6th</b>    | <b>US:</b>           | 13:30   | International Trade (October)                  | -\$73.3bn              | -\$79.1bn               |
|                   | <b>IRL:</b>          | <b>16:30</b>  | <b>Exchequer Returns</b>                       | <b>Nov'21: -€1.5bn</b> | <b>Nov'22: +€15.0bn</b> |
| <b>Wed 7th</b>    | <b>CHINA:</b>        | 03:00   | Trade Balance (November)                       | \$85.2bn               | \$79.0bn                |
|                   |                      |   | - Exports                                      | (-0.3%)                | (-3.6%)                 |
|                   | <b>GER:</b>          | 07:00   | Industrial Production (October)                | +0.6% (-2.5%)          | -0.5% (-0.7%)           |
|                   | <b>UK:</b>           | 07:00   | Halifax House Prices (November)                | -0.4% (+8.3%)          |                         |
|                   | <b>FRA:</b>          | 07:45   | Trade Balance (October)                        | -€17.5bn               |                         |
|                   | <b>ITA:</b>          | 09:00   | Retail Sales (October)                         | +0.5% (+4.1%)          |                         |
|                   | <b>EU-19:</b>        | 10:00   | Employment (Q3: Final Reading)                 | +0.2% (+1.7%)          | +0.2% (+1.7%)           |
|                   | <b>EU-19:</b>        | 10:00   | GDP (Q3: Final Reading)                        | +0.2% (+2.1%)          | +0.2% (+2.1%)           |
|                   | <b>JPN:</b>          | 23:50   | GDP (Q3: Second Reading)                       | -1.2% s.a.a.r.         | -1.1%                   |
| <b>Thu 8th</b>    | <b>JPN:</b>          | 05:00   | Economy Watchers Poll (November)               | 49.9                   |                         |
|                   | <b>IRL:</b>          | <b>11:00</b>  | <b>CPI Inflation (November)</b>                | <b>+1.6% (+9.2%)</b>   | <b>+0.2% (+8.8%)</b>    |
|                   |                      |   | <b>- HICP</b>                                  | <b>+1.5% (+9.4%)</b>   | <b>+0.2% (+9.0%)</b>    |
|                   | <b>US:</b>           | 13:30   | Initial Jobless Claims (w/e 3rd December)      | +225,000               |                         |
| <b>Fri 9th</b>    | <b>CHINA:</b>        | 01:30   | CPI (November)                                 | +0.1% (+2.1%)          |                         |
|                   | <b>CHINA:</b>        | 01:30   | PPI (November)                                 | (-1.3%)                |                         |
|                   | <b>US:</b>           | 13:30   | PPI Final Demand (November)                    | +0.2% (+8.0%)          | +0.2% (+7.2%)           |
|                   |                      |   | - Ex-Food & Energy                             | +0.0% (+6.7%)          | +0.2% (+5.9%)           |
|                   | <b>US:</b>           | 26:00   | Prelim. Uni. Michigan Consumer Sentiment (Nov) | 56.8                   | 56.8                    |

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