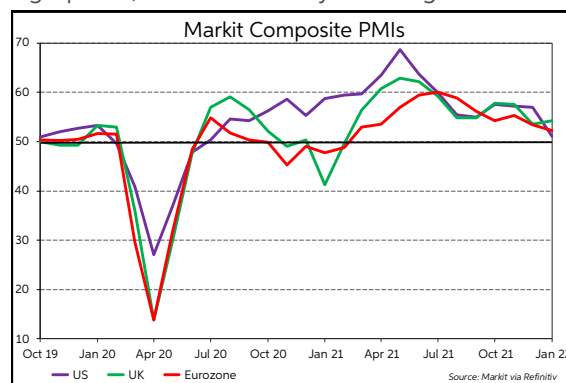


Killing the Goose

- The drop in the Irish inflation rate to 5.0% in January from 5.5% in December will prove short-lived.** It is largely down to a base effect as there was little of the usual winter sales in January last year, owing to the economy being in lockdown. The winter sales went ahead as normal this year, with clothing prices falling by 8%. These falls will unwind in February pushing the annual rate back up again. Indeed, it is unlikely that we have seen the peak in Irish inflation yet, with oil prices surging again over the winter. They have risen by one-third since early December. Meanwhile, wholesale gas prices remain elevated. The role of higher energy costs remains critical in terms of the surge in inflation. The Irish CPI rate excluding energy prices is 3.1%. In the Eurozone as a whole, where the HICP rate is running at 5.1%, the ex-energy rate is at 2.6%. Even then, the impact of higher energy costs is also directly impacting the core rate, such as in the very sharp rise in airline fares.
- There would seem to be little short-term relief in store in terms of energy prices.** Oil and gas inventories are at very low levels. The demand for oil and gas picked up strongly with the sharp rebound in economic activity over the past year. However, producers have not increased output accordingly, resulting in a marked fall in oil and gas stocks. It is this squeeze in the market that has led to the very sharp rise in oil and gas prices. Without a sizeable increase in production, it is difficult to see energy prices falling back anytime soon. OPEC is very much holding the line on oil output and is reluctant to increase production to any great extent. Geo-political tensions in Eastern Europe are adding to the problem, but the fundamental issue is that the market is undersupplied and available stocks are much depleted. These need to be rebuilt over the Northern Hemisphere summer to avoid a further rise in energy costs, but the omens do not look good at the present time.
- Labour markets are very tight also, with the unemployment rate at circa 4% in the US and UK, and 7% in the Eurozone, a record low in its 23 year history.** Persistent high energy prices are likely to fuel wage demands in tight labour markets. It can also lead to second round effects where higher energy costs for manufacturers and service providers get passed on to consumers. There is already evidence of this happening in the US, where wage growth is running at 5% and the core CPI rate has picked up to 6%. Central banks may be slow off the mark, but will respond eventually, if they fear inflationary pressures are becoming embedded in their economies.
- Tighter monetary policy will slow economic growth and thus the demand for energy.** The analysis by the Bank of England in its February Monetary Policy Report clearly showed the damage that a sustained rise in energy prices, combined with a tighter monetary and fiscal policy stance, could do to the UK economy and labour market via the impact on real household disposable incomes. Growth is expected to soon move below trend with unemployment rising. Efforts by oil and gas producers to maintain tight supplies and thus high prices, could eventually kill the goose that is laying the golden egg for them.
- Turning to the week ahead, the main highlight will be the flash PMIs for February in the US, UK and Eurozone.** In January, the services PMI in all three regions declined, but remained above 50, as the Omicron wave of the pandemic dampened activity levels. Meanwhile, the manufacturing PMI moved lower in the UK and the US. However, in the Eurozone, it inched slightly higher. Similar to the services data though, the manufacturing PMIs stayed in expansion territory in January also. The consensus is for the services indices to rise slightly, across the board in February, while the manufacturing PMIs are expected to remain relatively unchanged.
- There are a slew of other survey data due in the Eurozone.** Having declined in each of the last three months, the headline EC sentiment index is forecast to rise to 113.0 from 112.7 in February. Elsewhere, the bellwether German Ifo, as well as the Italian and French measures of business and consumer sentiment are out. Overall, the data are set to move higher, consistent with a rebound in economic activity in February, as Omicron wanes. **In the UK, remarks from BoE officials in front of the Treasury Select Committee will be in focus.**
- In the US, the January release of core-PCE inflation will garner close attention.** In December, core-PCE rose by 0.5%, the largest monthly increase since last May, bringing the year-on-year rate to 4.9%. Prices are anticipated to have increased by 0.5% once again in January, lifting the year-on-year rate further, to 5.2%. Meanwhile, consumption is projected to rebound by 1.5% in January, despite income falling by 0.3%. Elsewhere, the Conference Board measure of consumer sentiment is forecast to deteriorate in February as rising inflation weighs on confidence.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2022	2022	2022
Fed Funds	0.125	0.50	1.00	1.50
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.25	0.75	1.00	1.25
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 Q1	End Q2	End Q3
		2022	2022	2022
EUR/USD	1.1343	1.14	1.14	1.15
EUR/GBP	0.8341	0.84	0.84	0.85
EUR/JPY	130.49	131	131	131
GBP/USD	1.3599	1.36	1.36	1.35
USD/JPY	115.03	115	115	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	de Guindos (Wed); Schnabel (Thu); Lagarde , de Guindos (Fri)		
	BoE Speakers:	Ramsden (Tue); Bailey , Broadbent, Haskel, Tenreiro (Wed); Bailey , Broadbent, Pill (Thu)		
	Fed Speakers:	Bowman (Mon); Bostic (Tue); Mester, Barkin, Bostic (Thu); Waller (Fri)		
Mon 21st	US:	Presidents Day (Market Holiday)		
	JPN: 00:30	Flash Jibun Manufacturing PMI (February)	55.4	
	GER: 07:00	Producer Prices (January)	+5.0% (+24.2%)	+1.5% (+24.2%)
	FRA: 08:15	Flash Markit Composite PMI (February)	52.7	53.1
	GER: 08:30	Flash Markit Composite PMI (February)	53.8	54.3
	EU-19: 09:00	Flash Markit Composite PMI (February)	52.3	52.7
		- Manufacturing / Services	58.7 / 51.1	58.7 / 52.0
	UK: 09:30	Flash Markit / CIPS Composite PMI (February)	54.2	55.0
		- Manufacturing / Services	57.3 / 54.1	57.2 / 55.5
Tue 22nd	ITA: 09:00	Final HICP (January)	+0.2 (+5.3%)	+0.2% (+5.3%)
	GER: 09:00	German IFO (February)	95.7	96.5
	UK: 11:00	CBI Trend - Orders (February)	24	25
	US: 14:00	Case-Shiller (December)	+1.2% (+18.3%)	(+18.2%)
	US: 14:45	Flash Markit Composite PMI (February)	51.1	53.3
		- Manufacturing / Services	55.5 / 51.2	56.0 / 53.0
	US: 15:00	Consumer Confidence (February)	113.8	110.5
Wed 23rd	GER: 07:00	Gfk Consumer Sentiment (March)	-6.7	-6.3
	FRA: 07:45	INSEE Business Climate (February)	112	112
	EU-19: 10:00	Final HICP (January)	+0.3% (+5.1%)	+0.3% (+5.1%)
		- Ex-Food & Energy	-0.5% (+2.5%)	-0.5% (+2.5%)
Thu 24th	FRA: 07:45	INSEE Consumer Confidence (February)	99	100
	UK: 11:00	Distributive Trades (February)	28	25
	US: 13:30	GDP (Q4: Second Reading)	+6.9% s.a.a.r.	+7.0% s.a.a.r.
	US: 13:30	PCE Deflator (Q4: Second Reading)	+6.5% s.a.a.r.	+6.5% s.a.a.r.
		- Core-PCE Deflator (Q4: Second Reading)	+4.9% s.a.a.r.	+4.9% s.a.a.r.
	US: 13:30	Initial Jobless Claims (w/e 14th February)	+248,000	
	US: 15:00	New Home Sales (January)	+0.81m / +11.9%	+0.8m / -1.0%
Fri 25th	UK: 00:01	Gfk Consumer Confidence (February)	-19	-18
	GER: 07:00	GDP (Q4: Detailed Reading)	-0.7% (+1.4%)	-0.7% (+1.4%)
	FRA: 07:45	GDP (Q4: Final Reading)	+0.7% (+5.4%)	+0.7% (+5.4%)
	FRA: 07:45	Final HICP (February)	+0.3% (+3.5%)	+0.3% (+3.5%)
	FRA: 07:45	Producer Prices (January)	+1.0% (+17.7%)	
	ITA: 08:00	ISTAT Business Confidence (February)	113.9	113.8
	ITA: 08:00	ISTAT Consumer Confidence (February)	114.2	115.0
	EU-19: 09:00	M3 Annual Money Growth (January)	+6.9%	+6.7%
	EU-19: 09:00	EC Business Climate (February)	1.81	
	EU-19: 10:00	EC Economic Sentiment (February)	112.7	113.0
		- Industrial / Services / Consumer	13.9 / 9.1 / -8.8	14.2 / 10.3 / -8.8
	US: 13:30	Personal Income / Consumption (January)	+0.3% / -0.6%	-0.3% / +1.5%
	US: 13:30	PCE Prices (January)	+0.4% (+5.8%)	+0.6% (+6.0%)
		- Core PCE Prices	+0.5% (+4.9%)	+0.5% (+5.2%)
	US: 13:30	Durable Goods (January)	-0.7%	+0.6%
		- Ex-Transport	+0.6%	+0.4%
	US: 15:00	Final Uni. Michigan Consumer Sentiment (Feb)	61.7	61.7

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