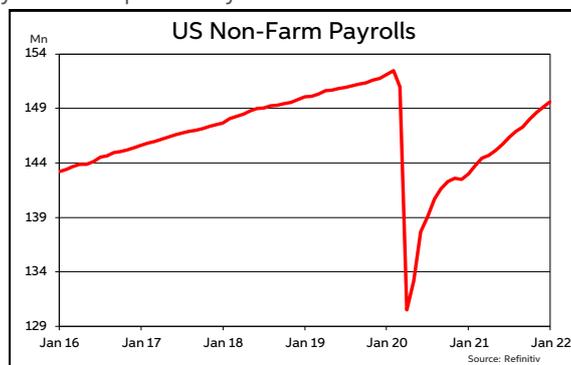


## Safe Haven

- The initial reaction in financial markets to Russia's full scale invasion of Ukraine was along expected lines, with rising risk aversion and a flight to safety.** This saw stock markets fall back, credit spreads widen, bonds rally and safe haven currencies like the dollar, yen and Swiss franc make ground. However, the sanctions announced by Western governments were not as severe as anticipated in terms of their economic and financial impacts, which are likely to be more evident over the medium term. This saw the initial moves in financial markets reverse somewhat. Meanwhile, many commodity prices have risen sharply on concerns about disruptions to supplies, with Russia a major player in some of these markets. Most notably, oil has risen above \$100 per barrel, with wholesale gas prices spiking even higher.
- Heightened uncertainty in regard to Ukraine is a factor that markets will have to contend with in the coming weeks so we can expect to see a continuation of the increased volatility that has been evident in recent days.** It is difficult to know how the situation in Ukraine will unfold, if pressure starts to grow for intervention, or further sanctions are imposed. The economic implications, though, are fairly clear, with even higher inflation on the cards in 2022, which will be a further dampener on real incomes and thus growth. The Eurozone is more exposed than other larger economies given its reliance on gas imports from Russia, though its exports to the region are relatively small.
- Central banks now have to weigh a new element in their monetary policy deliberations as they try and balance higher inflation as a result of the crisis with its negative impact on activity.** They are unlikely to change their minds about the need for higher rates, but will probably adopt a more cautious approach to policy changes. It is hard to see either the Fed or BoE hiking rates by more than 25bps at their March meetings. The ECB may not announce much of a change, if any, to the tapering of its QE bond purchase programme at its upcoming policy meeting. It is also likely to want to retain flexibility around monetary policy so long term guidance may be limited. There has been a tightening in financial conditions recently in any event, which gives central banks a bit more leeway
- Futures contracts, though, have not changed a great deal, with markets still expecting that rates will get to circa 2% in the UK and US by next year and climb towards 0.75% in the Eurozone.** This probably reflects a view that the crisis will eventually pass, the global economic recovery will remain intact and elevated inflationary pressures will still require a significant degree of rate tightening over the course of 2022-23. However, the implied rate path is now somewhat less steep than before the crisis. Furthermore, this crisis is only starting to unfold. We expect markets to remain very volatile, with risk aversion the dominant theme. Thus, core bond markets may be underpinned by safe-haven flows in the near term, with riskier assets subject to further downside risks.
- Turning to the week ahead, the main release will be the US labour market data for February.** In January, payrolls were better than expected, increasing by 467,000. There were also large upward revisions, totalling 709,000 to payrolls in November and December, suggesting that jobs growth remained strong throughout the winter. Wage growth accelerated in January, rising by 0.7% in the month. The jobless rate was unchanged at 4%, but encouragingly, labour force participation jumped to 62.2% from 61.9%. The consensus is that the labour market continued to recover strongly in February, with payrolls anticipated to rise by 438,000. The unemployment rate is forecast to edge lower to 3.9%. However, tight conditions are expected to lead to another sharp increase in wages, with average earnings projected to rise by 0.6% in the month. Elsewhere in the US, both the manufacturing and non-manufacturing ISMs are expected to move higher, consistent with a pick-up in activity in February. Meantime, Chair Powell's semi-annual testimony to Congress will garner close attention.
- In the Eurozone, the flash HICP inflation data for February are due.** In January, inflationary pressures firmed again, as energy prices climbed further, while core-inflation did not drop back by as much as anticipated, despite substantial base effects washing through the index. Headline and core inflation were at 5.1% and 2.4%, respectively last month. Energy prices though, were up 28.8% year-on-year. The upward trend in inflation is set to continue in the months ahead, and is likely to be exacerbated further by the conflict in Ukraine. The consensus is for headline HICP to rise to 5.3% in February, with the ex-food & energy reading jumping to 2.7%, as price pressures continue to broaden out. In terms of more lagging indicators, labour market and retail sales data for January are forecast to show the unemployment rate remained at 7%, while sales rebounded by 1.8%, as the Omicron wave subsided. Meanwhile, the latest ECB Meeting minutes are also due. **On the home front, the Q4 National Accounts headline a slew of other key releases this week.**



|             | Interest Rate Forecasts |        |        |        |
|-------------|-------------------------|--------|--------|--------|
|             | Current                 | End Q1 | End Q2 | End Q3 |
|             | 2022                    |        |        |        |
| Fed Funds   | 0.125                   | 0.375  | 0.875  | 1.375  |
| 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   |        |        |        |
| EUR/USD | 1.1234                                       | 1.13   | 1.14   | 1.14   |
| EUR/GBP | 0.8385                                       | 0.83   | 0.83   | 0.84   |
| EUR/JPY | 129.79                                       | 130    | 131    | 130    |
| GBP/USD | 1.3395                                       | 1.36   | 1.37   | 1.36   |
| USD/JPY | 115.51                                       | 115    | 115    | 114    |

Current Rates Reuters, Forecasts AIB's ERU

| Date              | UK & Irish Time      | Release   | Previous               | Forecast              |
|-------------------|----------------------|---|------------------------|-----------------------|
| <b>This Week:</b> | <b>ECB Speakers:</b> | Lane (Wed)  |                        |                       |
|                   | <b>BoE Speakers:</b> | Saunders, Mann (Tue); Cunliffe, Ternreyro (Wed)   |                        |                       |
|                   | <b>Fed Speakers:</b> | Bostic (Mon); Bostic (Tue); <b>Powell</b> , Bullard, Evans (Wed); <b>Powell</b> (Thu); Williams (Fri) |                        |                       |
| <b>Mon 28th</b>   | <b>SPA:</b> 08:00    | Flash HICP (February)   | -0.8% (+6.2%)          | +1.7% (+6.8%)         |
|                   | <b>IRL:</b> 11:00    | <b>Retail Sales (January)</b>   | <b>-3.2% (-2.2%)</b>   | <b>+0.0% (+22.0%)</b> |
| <b>Tue 1st</b>    | <b>IRL:</b> 01:01    | <b>AIB Manufacturing PMI (February)</b>   | <b>59.4</b>            |                       |
|                   | <b>UK:</b> 08:30     | Mortgage Approvals (January)  | +71,015                | +72,000               |
|                   | <b>EU-19:</b> 09:00  | Final Markit Manufacturing PMI (February)   | 58.4                   | 58.4                  |
|                   | <b>UK:</b> 09:30     | Final Markit/CIPS Manufacturing PMI (February)  | 57.3                   | 57.3                  |
|                   | <b>ITA:</b> 10:00    | Flash HICP Inflation (February)   | +0.0% (+5.1%)          | +0.1% (+5.4%)         |
|                   | <b>GER:</b> 13:00    | Flash HICP Inflation (February)   | +0.9% (+5.1%)          | +0.8% (+5.4%)         |
|                   | <b>US:</b> 14:45     | Final Markit Manufacturing PMI (February)   | 57.5                   | 57.5                  |
|                   | <b>US:</b> 15:00     | Manufacturing ISM (February)  | 57.6                   | 57.9                  |
| <b>Wed 2nd</b>    | <b>UK:</b> 07:00     | Nationwide House Prices (February)  | +0.8% (+11.2%)         |                       |
|                   | <b>GER:</b> 08:55    | Unemployment Rate (February)  | 5.1%                   | 5.1%                  |
|                   | <b>EU-19:</b> 10:00  | Flash HICP (February)   | (+5.1%)                | (+5.3%)               |
|                   |                      | - Ex-Food & Energy  | (+2.4%)                | (+2.7%)               |
|                   | <b>IRL:</b> 11:00    | <b>Unemployment Rate (February)</b>   | <b>5.3%</b>            | <b>5.2%</b>           |
|                   |                      | <b>- Covid-19 Adjusted Rate</b>   | <b>7.8%</b>            | <b>6.9%</b>           |
|                   | <b>US:</b> 13:15     | ADP Employment (February)   | -301,000               | +320,000              |
|                   | <b>IRL:</b> 16:30    | <b>Exchequer Returns (February)</b>   | <b>Feb'21: -€0.7bn</b> | <b>+€1.5bn</b>        |
| <b>Thu 3rd</b>    | <b>JPN:</b> 00:30    | Final Jibun Composite PMI (February)  | 44.6                   |                       |
|                   | <b>IRL:</b> 01:01    | <b>AIB Services PMI (February)</b>  | <b>56.2</b>            |                       |
|                   | <b>ITA:</b> 08:45    | Markit Composite PMI (February)   | 50.1                   |                       |
|                   | <b>FRA:</b> 08:50    | Final Markit Composite PMI (February)   | 57.4                   | 57.4                  |
|                   | <b>GER:</b> 08:55    | Final Markit Composite PMI (February)   | 56.2                   | 56.2                  |
|                   | <b>EU-19:</b> 09:00  | Final Markit Composite PMI (February)   | 55.8                   | 55.8                  |
|                   |                      | - Services  | 55.8                   | 55.8                  |
|                   | <b>UK:</b> 09:30     | Final Markit / CIPS Composite PMI (February)  | 60.2                   | 60.2                  |
|                   |                      | - Services  | 60.8                   | 60.8                  |
|                   | <b>EU-19:</b> 10:00  | Producer Prices (January)   | +2.9% (+26.2%)         | +2.3% (+26.9%)        |
|                   | <b>EU-19:</b> 10:00  | Unemployment Rate (January)   | 7.0%                   | 7.0%                  |
|                   | <b>EU-19:</b> 10:00  | ECB Meeting Minutes (2nd-3rd February)  |                        |                       |
|                   | <b>US:</b> 13:30     | Initial Jobless Claims (w/e 21st February)  | +232,000               |                       |
|                   | <b>US:</b> 14:45     | Final Markit Composite PMI (February)   | 56.0                   | 56.0                  |
|                   |                      | - Services  | 56.7                   | 56.7                  |
|                   | <b>US:</b> 15:00     | Non-manufacturing ISM (February)  | 59.9                   | 60.5                  |
|                   | <b>JPN:</b> 23:30    | Jobs/Applicants Ratio (January)   | 1.16                   | 1.16                  |
|                   | <b>JPN:</b> 23:30    | Unemployment Rate (January)   | 2.7%                   | 2.7%                  |
| <b>Fri 4th</b>    | <b>US:</b> 07:00     | Trade Balance (January)   | +€6.8bn                | +€7.1Bn               |
|                   |                      | - Exports   | +0.9                   |                       |
|                   | <b>ITA:</b> 09:00    | Final GDP (Q4)  | +0.6% (+6.4%)          | +0.6% (+6.4%)         |
|                   | <b>EU-19:</b> 10:00  | Retail Sales (January)  | -3.0% (+2.0%)          | +1.5% (+9.5%)         |
|                   | <b>IRL:</b> 11:00    | <b>National Accounts</b>  |                        |                       |
|                   |                      | <b>- GDP (Q4 2021)</b>  | <b>+0.9% (+11.4%)</b>  |                       |
|                   | <b>US:</b> 13:30     | Non-Farm Payrolls (February)  | +467,000               | +438,000              |
|                   |                      | - Unemployment Rate (February)  | 4.0%                   | 3.9%                  |
|                   |                      | - Average Earnings (February)   | +0.7% (+5.7%)          | +0.6% (+5.8%)         |

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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and Allied Irish Bank (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.