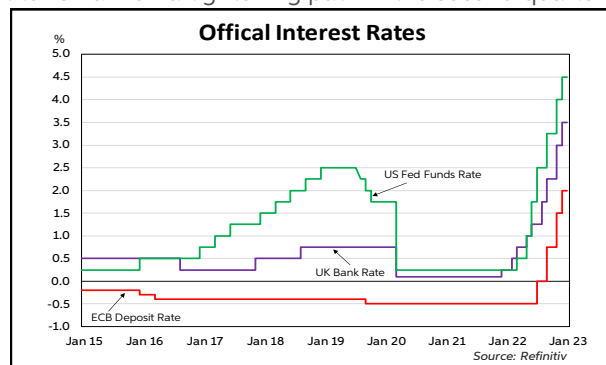


Staying the Course

- Markets will be very much focused on central banks in the week ahead, as the US Federal Reserve, Bank of England and European Central Bank hold their first monetary policy meetings of 2023.** All three are set to deliver further increases in interest rates given inflation remains at very elevated levels. These will come on top of the substantial hikes implemented in 2022, ranging in total from 250-425bps. The central banks indicated at their meetings in December that a significant amount of additional monetary tightening will be required in the first half of 2023 to help bring inflation back to 2%. However, with activity losing momentum and inflation now on a downward path, markets have been contemplating whether we may be near the peak in interest rates, with policy easing also seen coming on to the agenda later in the year.
- Central bankers, however, have been actively dampening down such speculation in the lead-up to their policy meetings.** Futures contracts are pricing in just two further 25bps Fed hikes that would see US rates peak at 4.875% at the end of this quarter. Numerous Fed speakers have been very clear, though, that rates need to rise above 5% and thus hikes will be extended into the second quarter. Markets are also pricing in that US rates will be cut to 4.5% by end year, but the Fed has been explicit in its guidance that policy easing will not be in play later this year. Senior Fed officials have emphasised recently that they will need to “stay the course” and keep rates on hold for quite a considerable time after they reach a peak to ensure they “get the job done” in terms of pushing inflation back down to 2%.
- Meanwhile, ECB President Lagarde has been very direct recently in saying markets should revise their position that the ECB would soon slow down the pace of rate hikes in response to falling inflation.** Numerous ECB Council members have indicated that two 50bps hikes remain on the cards at their February and March policy meetings, with Lagarde commenting “inflation, by all accounts, is still way too high”. This would take the deposit rate up to 3.0%. The ECB could then move to 25bps hikes in the second quarter, but there seems less unanimity about additional tightening. ECB Council member Panetta warned there is too much uncertainty to “unconditionally pre-commit to a specific policy course”. However, with the core inflation rate continuing to climb in December, the majority of ECB Council members are likely to want to remain on a tightening path in the second quarter and get the deposit rate up to around 3.5%.
- In the UK, despite some very weak data recently, the BoE has not been pushing back on market expectations that rates will rise by a further 100bps to 4.5%.** UK inflation remains very high at 10.5%, while wage growth is also stronger than in other major economies. Growth in average earnings was running at 6.4% year-on-year in the three months to November and 7.2% for the private sector. A 50bps hike seems on the cards again at Thursday’s meeting, to be followed by at least one further 25bps increase in March. Given the bleak UK economic outlook, though, the BoE seems the most likely of the three central banks not to extend its rate hiking cycle into the second quarter. Furthermore, two members of the nine strong MPC voted to leave Bank rate unchanged at the BoE’s December meeting, suggesting the central bank may be near the end of its current tightening cycle.
- Inflation and labour market data will be key in determining when the ECB and Fed will reach the end of their tightening cycles also.** In this regard, the flash reading of Eurozone HICP for January will garner close attention this week. Croatia has joined the currency area, and will be added to the index. The index is due for re-weighting also, with energy becoming an even larger component. At the same time, substantial fiscal interventions by governments and significant base effects will begin to affect the data, which could make it more difficult to interpret the underlying trends. Nevertheless, the expectation is that headline inflation will continue to fall throughout this year, although, there are concerns that core inflation may be more sticky. The consensus is for headline HICP to edge lower to 9.0% from 9.2%, with the ex-food and energy rate remaining unchanged at 6.9%. Meanwhile, Eurozone GDP is forecast to have stagnated in Q4. However, despite this, the unemployment rate is projected to stay at a record low of 6.5% in December. The EC sentiment indicators for January will provide a more timely update on economic conditions.
- In the US, the first labour market report of 2023 is due on Friday.** Last year, the pace of job creation slowed, but remained solid. This trend is set to continue, with payrolls expected to rise by 185k in January, down from 223k in December. The unemployment rate is forecast to rise slightly to 3.6%. Perhaps, most importantly though, the pace of average earnings growth is anticipated to moderate further to 4.3% y/y from 4.6% y/y in December. Elsewhere, the Employment Cost Index, is projected to slow to +1.1% q/q in Q4, from +1.2% in Q3, with the wages sub-component, the Fed’s preferred measure of earnings inflation likely to cool also. Meanwhile, consumer confidence and the ISMs for January will feature.
- A busy Irish docket** contains preliminary Q4 GDP, and the unemployment rate, PMIs, HICP, and Exchequer Returns for January.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2023			
Fed Funds	4.375	4.875	5.125	5.125
ECB Deposit	2.00	3.00	3.50	3.50
BoE Repo	3.50	4.25	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 Q1	End Q2	End Q3
	2023			
EUR/USD	1.0865	1.09	1.10	1.12
EUR/GBP	0.8774	0.88	0.89	0.89
EUR/JPY	141.13	141	140	140
GBP/USD	1.2382	1.24	1.24	1.26
USD/JPY	129.85	129	127	125

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Thu)		
	BoE Speakers:	Bailey (Thu)		
	Fed Speakers:	Powell (Wed)		
Mon 30th	GER:	07:00 Flash GDP (Q4: Preliminary Reading)	+0.4% (+1.3%)	+0.0% (+1.3%)
	EU-20:	10:00 EC Economic Sentiment (January)	95.8	97.0
		- Industrial / Services / Consumer	-1.5 / 6.3 / -22.0	-0.6 / 7.9 / -20.9
	IRL:	11:00 GDP (Q4: Preliminary Reading)	(+10.9%)	(+9.2%)
	JPN:	23:50 Unemployment Rate (December)	2.5%	2.5%
Tue 31st	FRA:	06:30 GDP (Q4: Preliminary Reading)	+0.2% (+1.0%)	+0.0% (+0.5%)
	FRA:	07:45 Flash HICP Inflation (January)	-0.1% (+6.7%)	+0.3% (+6.9%)
	ITA:	08:00 GDP (Q4: Preliminary Reading)	+0.5% (+2.6%)	-0.1% (+1.6%)
	GER:	08:55 Unemployment Rate (January)	5.5%	5.5%
	EU-19:	10:00 GDP (Q4: Preliminary Reading)	+0.3% (+2.3%)	+0.0% (+1.8%)
	GER:	13:00 Flash HICP (January)	-1.2% (+9.6%)	+1.3% (+10.0%)
	US:	13:30 Employment Cost Index - Q4 2022	+1.2%	+1.1%
		- Wages	+1.3%	
	US:	14:00 Case-Shiller House Prices (November)	-0.5% (+8.6%)	
	US:	15:00 Conference Board Consumer Confidence (Jan)	108.3	109.0
Wed 1st	IRL:	01:01 AIB Manufacturing PMI (January)	48.7	
	EU-20:	09:00 Final S&P Manufacturing PMI (January)	48.8	48.8
	UK:	09:30 Final S&P /CIPS Manufacturing PMI (January)	46.7	46.7
	EU-20:	10:00 Flash HICP Inflation (January)	-0.3% (+9.2%)	+0.1% (+9.0%)
		- Ex-Food & Energy	(+6.9%)	(+6.9%)
	EU-19:	10:00 Unemployment Rate (December)	6.5%	6.5%
	IRL:	11:00 Unemployment Rate (January)	4.3%	4.3%
	US:	13:15 ADP National Employment Rate (January)	+235,000	+170,000
	US:	14:45 Final S&P Manufacturing PMI (January)	46.8	46.8
	US:	15:00 Manufacturing ISM (January)	48.4	48.0
	US:	15:00 JOLTS Job Openings (December)	10.5mn	
	US:	19:00 Fed Funds Target Range	4.25-4.50%	4.50-4.75%
	US:	19:30 FOMC Post-Meeting Press Conference		
Thu 2nd	GER:	07:00 Trade Balance (December)	+€10.8bn	+€9.0bn
		- Exports	-0.3%	-3.5%
	UK:	12:00 BoE Interest Rate Announcement	3.50%	4.00%
	UK:	12:30 BoE Monetary Policy Report Press Conference		
	EU-20:	13:15 ECB Deposit Rate	2.50%	3.00%
		- Re-fi Rate	3.00%	3.50%
	US:	13:30 Initial Jobless Claims (W/e 23rd January 2023)	+186,000	+200,000
	US:	13:30 Unit Labour Costs (Q4: First Reading)	+2.4% s.a.a.r.	+1.6% s.a.a.r.
	IRL:	16:30 Exchequer Returns (January)	Jan'22: +€2.2bn	Jan'23: +€2.5bn
Fri 3rd	IRL:	01:01 AIB Services PMI (January)	52.7	
	EU-20:	09:00 Final S&P Composite PMI (January)	50.2	50.2
		- Final S&P Services PMI (January)	50.7	50.7
	UK:	09:30 Final S&P / CIPS Composite PMI (January)	47.8	47.8
		- Final S&P / CIPS Services PMI (January)	48.0	48.0
	EU-19:	10:00 Producer Prices (December)	-0.9% (+27.1%)	-0.4% (+22.6%)
	US:	13:30 Non-Farm Payrolls (January)	+223,000	+185,000
		- Unemployment Rate	3.5%	3.6%
		- Average Earnings	+0.3% (+4.6%)	+0.3% (+4.3%)
	US:	14:45 Final S&P Composite PMI (January)	46.6	46.6
		- Final S&P Services PMI (January)	46.6	46.6
	US:	15:00 Non-Manufacturing ISM (January)	49.6	50.2

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

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