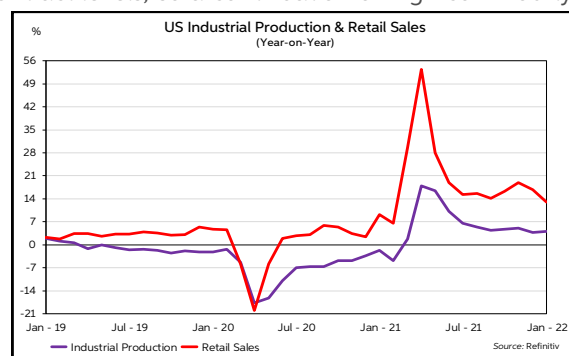


## ECB Takes the Exit Route

- Markets, economists and central bankers continue to struggle in assessing the implications for global economic activity of the war in Ukraine and sanctions imposed on Russia.** It is clear inflation will be much higher this year, with CPI rates near 8% likely to be seen in many economies, depressing real disposable income and growth. However, advanced economies were expected to grow by circa 4% this year before the crisis. Thus, even with a significant hit to activity, they still should be able to record solid growth in 2022. ECB President Lagarde stressed in her post meeting statement that household savings have been built up to high levels in the past two years, while governments have started to mitigate some of the impact of higher energy costs, which should help to sustain activity. The ECB has made only modest downward adjustments to its growth projections for the Eurozone. GDP is projected to grow by 3.7% in 2022, down from 4.2% previously, although, this year's inflation forecast has been upped to 5.1% from 3.2%. Its GDP projections for 2023 and 2024 were revised slightly lower to 2.8% and 1.6%, respectively.
- Nevertheless, there are concerns that the impact on activity could prove more profound, with much talk in markets of stagflation in advanced economies, or a combination of high inflation and virtually no growth.** The extreme volatility in financial markets this week shows that they are very unsure about how the balance between inflation and growth will play out. The ECB did emphasise in its meeting statement that the risks to its growth forecasts were very much to the downside, especially if the rise in commodity prices and inflation proves sustained. There are also concerns around the security of supply of energy, some food commodities and inputs for industry. The war in Ukraine and sanctions on Russia will add to the disruptions to supply chains evident over the past year and resultant delays in deliveries.
- The ECB also produced a "severe" scenario where even stricter sanctions are imposed on Russia, leading to greater disruptions in global supply chains.** There are also cuts in Russian gas supplies that result in higher energy costs, larger second-round effects from rising energy prices, and a stronger re-pricing in financial markets. This scenario would imply that GDP growth in 2022 is 1.4 percentage points (p.p.) below the baseline at 2.3%, while inflation would be 2.0 p.p. higher, averaging over 7%. Significantly lower growth and higher inflation, compared to the baseline, would also be seen in 2023. It is worth noting that the ECB baseline forecasts are based on oil prices that are well below current contract levels, so a continuation of high commodity prices would be a clear downside risk to its GDP projections.
- Nonetheless, in a surprise move, the ECB is accelerating tapering of its QE bond purchase programme, as high inflation outweighs concerns about the impact on growth from Russia's invasion of Ukraine.** This has opened the door for rate hikes later this year and in 2023, although, the ECB indicated that the pace of any rate increases would be gradual. Its key deposit rate currently stands at -0.5%. The ECB sees inflation settling down at around its 2% target over the medium term in both its base and severe scenarios. As a result, it now seems keen to exit its two main non-standard monetary policy measures of QE and negative interest rates, despite the crisis in Ukraine.
- Monetary policy will remain in focus for markets this week.** In the US, the Federal Reserve is expected to raise interest rates for the first time since 2018, increasing the Fed Funds Target Range by 25bps to 0.25-0.50%. However, this is likely to be just the first in a series of rate hikes from the Fed this year. The central bank has clearly become more perturbed by the surge in inflation over recent months, with a number of officials voicing their concerns. The interest rate dotplot in the updated Summary of Economic Projections will garner close attention as a result. In December, the dotplot signalled the Fed expected to raise rates three times this year, three times next year, and twice more in 2024. Futures contracts are currently pricing in up to 7 rate hikes from the Fed this year, taking the target range all the way up to 1.75-2%. However, thereafter rates are seen as levelling off at 2-2.25% in 2023 and 2024.
- In the UK, the Bank of England is also expected to raise interest rates, bringing the Bank rate to 0.75%.** In February, the MPC voted 5:4 in favour of a 25bps hike, with the four dissenters preferring a 50bps increase. Since then, data have showed that the economy performed better than the BoE anticipated at the end of 2021. Furthermore, the recovery has gathered some steam early in 2022. Inflation has also continued to rise, while the conflict in Ukraine is likely to place even more upward pressure on prices, as mentioned above. The market is of the view that the BoE will hike rates aggressively this year, with Bank rate seen as rising to 2% before year end. The MPC noted in February that, "some further modest tightening" of monetary policy was likely to be appropriate, suggesting that the market is pricing in too many rate hikes this year.
- The main data highlights this week come from the UK and US as well.** Starting with the UK, the unemployment rate is projected to edge lower to 4% in January from 4.1% previously. Meanwhile, in the US, retail sales and industrial production are forecast to rise in February, having regained momentum at the start of the year. Industrial production (Jan) will also feature in the Eurozone.



	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	0.50	0.75	1.25	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 Q1	End Q2	End Q3
	2022			
EUR/USD	1.0959	1.10	1.11	1.12
EUR/GBP	0.8374	0.83	0.83	0.83
EUR/JPY	128.12	126	127	128
GBP/USD	1.3083	1.33	1.34	1.35
USD/JPY	116.89	115	114	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Lagarde, Schnabel, Lane (Thu)</b>		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	<b>Barkin, Bowman (Fri)</b>		
	<b>Eurogroup Meeting (Monday 14th March)</b>			
<b>Mon 14th</b>	<b>FRA:</b>	07:45 Trade Balance (January) - Exports	-€11.3bn €44.0bn	
	<b>SPA:</b>	08:00 Retail Sales (January)	(-2.3%)	
<b>Tue 15th</b>	<b>CHINA:</b>	02:00 Retail Sales (February)	(+1.7%)	(+3.8%)
	<b>CHINA:</b>	02:00 Industrial Output (February)	(+4.3%)	(+4.0%)
	<b>UK:</b>	07:00 ILO Employment (January) - Unemployment Rate (January)	-38,000 4.1%	4.0%
	<b>UK:</b>	07:00 Average Weekly Earnings (3mths to Jan) - Ex-Bonus	(+4.3%) (+3.7%)	(+4.6%) (+3.7%)
	<b>UK:</b>	07:00 Claimant Count (February)	-31,900	
	<b>FRA:</b>	07:45 Final HICP Inflation (February)	+0.8% (+4.1%)	+0.8% (+4.1%)
	<b>GER:</b>	10:00 ZEW Economic Sentiment (March)	54.3	10.0
	<b>EU-19:</b>	10:00 Industrial Production (January)	+1.2% (+1.6%)	+0.2% (-0.5%)
	<b>US:</b>	12:30 PPI Final Demand (February) - Ex-Food & Energy	+1.0% (+9.7%) +0.8% (+8.3%)	+0.8% (+10.0%) +0.6% (+9.5%)
	<b>US:</b>	12:30 NY FED / Empire State Index (March)	3.1	8.0
	<b>JPN:</b>	23:50 Trade Balance (February) - Exports	-¥2,191.1bn (+9.6%)	-¥112.6bn (+21.0%)
<b>Wed 16th</b>	<b>ITA:</b>	09:00 Final HICP Inflation (February)	+0.8% (+6.2%)	+0.8% (+6.2%)
	<b>IRL:</b>	<b>11:00 Residential Property Prices (January)</b>	<b>+1.1% (+14.4%)</b>	<b>+0.7% (+14.7%)</b>
	<b>US:</b>	12:30 Retail Sales (February) - Ex-Autos - Ex-Gas & Autos	+3.8% (+13.0%) +3.3% +3.8%	+0.4% (+16.5%) +0.9%
	<b>US:</b>	14:00 NAHB Homebuilder Sentiment (March)	82	81
	<b>US:</b>	19:00 Fed Funds Target Range	0.00-0.25%	+0.25-0.50%
	<b>US:</b>	19:30 Fed Press Conference		
<b>Thu 17th</b>	<b>IRL:</b>	<b>St. Patrick's Day (Bank Holiday)</b>		
	<b>EU-19:</b>	10:00 Final HICP Inflation (February) - Ex-Food & Energy	+0.9% (+5.8%) +0.6% (+2.9%)	+0.9% (+5.8%) +0.6% (+2.9%)
	<b>UK:</b>	12:00 BoE Interest Rate Decision	+0.50%	+0.75%
	<b>US:</b>	12:30 Philly Fed Manufacturing Index (March)	16.0	15.0
	<b>US:</b>	12:30 Initial jobless Claims (w/e 7th March)	+227,000	
	<b>US:</b>	12:30 Housing Starts (February) - Building Permits	+1.6m / -4.1% +1.9m / +0.5%	+1.7m / +2.6% +1.9m / -2.4%
	<b>US:</b>	13:15 Industrial Production (February) - Manufacturing Output - Capacity Utilisation	+1.4% (+4.1%) +0.2% 77.6%	+0.5% (+7.9%) +0.5% 77.8%
	<b>JPN:</b>	23:30 CPI (February) - Core CPI	(+0.5%) (+0.2%)	(+0.6%) (+0.6%)
<b>Fri 18th</b>	<b>IRL:</b>	<b>Bank Holiday</b>		
	<b>JPN:</b>	03:00 BoJ rate Decision	-0.10%	-0.10%
	<b>EU-19:</b>	10:00 Total Trade Balance (January)	-€9.7bn	
	<b>US:</b>	14:00 Existing Home Sales (February)	6.5m / +6.7%	6.2m / -4.9%

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