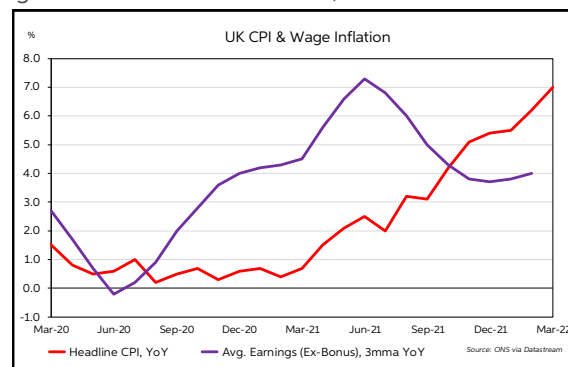


Need Another Miracle on the Hudson

- We have seen a significant fall in bond yields this week, reversing some of the very sharp sell-off over the past two months.** Meanwhile, markets have scaled back somewhat their expectations on the extent of central bank rate hikes. It may be that the moves this week are partly technical in nature due to short covering. It may also be that markets now believe they have priced in sufficient rate tightening for central banks to get inflation back under control, amid growing concerns about the economic outlook. The objective of central banks is to achieve a “soft landing”. In other words, they aim to tighten policy so that it slows the economy enough to bring inflation back to target, without pushing it into recession. This has been achieved in the past, but not always, and it has proved particularly hard to do at times of high inflation.
- The world economy rebounded very strongly last year, with GDP rising by over 6% on the back of substantial fiscal and monetary policy stimulus.** Demand surged, but unfortunately this coincided with disruptions on the supply side of economies, as well as an energy price shock. The result was a surge in inflation. These supply side difficulties, and the energy price shock have been exacerbated by the war in Ukraine and a new COVID wave in China. To alleviate inflationary pressures, demand and supply need to be brought much closer into line. Given ongoing supply constraints, this means taking action to dampen demand. How much action is the key question, with conflicting views on this.
- The Irish economy is enjoying a very robust opening half to the year, while the US economy continues to perform very well, as noted by the Fed.** One would expect a strong pick-up in activity in the EU’s Mediterranean economies this summer as well on the back of a bumper holiday season. The war in Ukraine is also leading to much higher government spending on defence. Meanwhile, the impact of the surge in inflation on real household incomes and thus consumer spending, could be offset somewhat by a rundown of some of the enormous build-up of personal savings during the past two years. Furthermore, tight labour markets and high inflation runs the risk of a wage-price spiral taking hold. All this argues for aggressive central bank action, with a need for policy to become restrictive. Indeed, some economists argue that with real interest rates deep in negative territory, the monetary tightening priced in by markets is nowhere near sufficient to dampen demand to any meaningful degree.
- On the other hand, though, there has been a marked slowdown in activity in the UK over the spring, with weakness also evident in the German and Chinese economies.** There are numerous downside risks to the global economy. Fragile financial markets would be very vulnerable to aggressive rates hikes and significant quantitative tightening. COVID could still re-emerge as a major constraint on activity. Indeed, new COVID restrictions are dampening growth in China at present, while concerns remain about a more general slowdown in the Chinese economy. Supply chain disruptions also dampen output as well as adding to inflationary pressures. The BoE and ECB are acutely aware of these downside risks to growth. The risk of a policy error is high, as achieving a soft landing given all these competing forces is going to be a tough challenge for central banks. In fact, it would mirror the ‘Miracle on the Hudson’ safe landing.
- This week, a number of important updates on the UK economy are due.** Regarding inflation, CPI has surged in the opening quarter of 2022. The headline CPI rate rose to 7% in March. However, due to an increase in retail energy prices, it is set to rise further in April. The consensus is for a 9.1% print. The core rate is forecast to rise to 5.7% from 6.2% also. Very tight conditions in the labour market are raising concerns of a wage-price spiral in the UK. Average earnings (ex-bonus) were up 4% YoY in February. Recently, businesses responding to a BoE survey noted they expect pay settlements to be around 4-6% in 2022, compared to 2.5-3.5% in 2021, indicating wages are likely to trend higher this year. It is envisaged average earnings rose 4.2% YoY in March. Meanwhile, the unemployment rate is projected to remain unchanged at 3.8% in March. In terms of consumption data, retail sales (April) and consumer confidence (May) will be released. In March, retail sales fell by 1.4%, while consumer confidence plunged to -38 in April, as the cost of living squeeze intensified. Both metrics are anticipated to be little changed, with retail sales falling by 0.2% in April, and confidence remaining at -38.
- Retail sales data will be released in the US also.** The consensus is for a 0.9% increase in headline retail sales in April. The ex-autos measure is forecast to grow by a more modest 0.4% in the month. Meanwhile, industrial production is expected to continue trending higher at the start of Q2, albeit at a slower pace than in Q1. Output is projected to rise by 0.4% in April, following on from increases of 1% in January, and 0.9% in February and March. A slew of housing market data are due as well, including housing starts, existing home sales (Apr) and homebuilder sentiment (May).
- In the Eurozone, the ECB monetary policy account from April’s meeting will be released.** Meanwhile, the Q1 employment report should show continuing strong job growth. Elsewhere, it is anticipated consumer confidence (May) improved slightly.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2022			
Fed Funds	0.875	1.375	2.125	2.625
ECB Deposit	-0.50	-0.50	0.00	0.25
BoE Repo	1.00	1.25	1.50	1.75
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 Q2	End Q3	End Q4
	2022			
EUR/USD	1.0379	1.05	1.06	1.07
EUR/GBP	0.8505	0.85	0.86	0.87
EUR/JPY	134.32	139	142	144
GBP/USD	1.2202	1.24	1.23	1.23
USD/JPY	129.40	132	134	135

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Panetta, Lane (Mon); Lagarde (Tue) ; de Guindos (Thu)		
	BoE Speakers:	Bailey , Ramsden, Haskel, Saunders (Mon); Cunliffe (Tue); Pill (Fri)		
	Fed Speakers:	Williams (Mon); Powell , Bullard, Mester, Evans (Tue); Harker (Wed)		
Mon 16th	CHINA:	03:00 Industrial Output (April)	(+5.0%)	(+0.4%)
	CHINA:	03:00 Retail Sales (April)	(-3.5%)	(-6.1%)
	EU-19:	10:00 Total Trade Balance (March)	-€7.6bn	
	IRL:	11:00 Residential Property Price Index (March)	+0.8% (+15.3%)	+0.6% (+15.4%)
	US:	13:30 NY Fed Manufacturing (May)	24.6	15.5
Tue 17th	UK:	07:00 Unemployment Rate (March)	3.8%	3.8%
	UK:	07:00 Average Earnings (3 mnths to March) - Ex-Bonus	(+5.4%) (+4.0%)	(+5.4%) (+4.2%)
	UK:	07:00 Claimant Count (April)	-46,900	-38,800
	EU-19:	10:00 Employment (Q1: Second Reading)	+0.2% (+5.0%)	+0.2% (+5.0%)
	ITA:	10:00 Final HICP (April)	+0.6% (+6.6%)	+0.6% (+6.6%)
	US:	13:30 Retail Sales (April) - Ex-Autos - Ex-Gas & Autos	+0.5% (+6.3%) +1.1% +0.2%	+0.9% (+7.1%) +0.4%
	US:	14:15 Industrial production (April) - Manufacturing Output - Capacity Utilisation	+0.9% (+5.5%) +0.9% +78.3%	+0.4% (+5.8%) +0.3 +78.5%
	US:	15:00 NAHB Homebuilder Sentiment (May)	77	76
Wed 18th	JPN:	00:50 GDP (Q1: Preliminary Estimate)	+1.1% (+4.6%)	-0.4% (-1.8%)
	UK:	07:00 CPI (April) - Core	+1.1% (+7.0%) +0.9% (+5.7%)	+2.6% (+9.1%) +0.8% (+6.2%)
	UK:	07:00 PPI Input Prices (April) - Output Prices (April)	+5.2% (+19.2%) +2.0% (+11.9%)	
	EU-19:	10:00 Final (HICP) - Ex-Food & Energy	+0.6% (+7.5%) +1.1% (+3.9%)	+0.6% (+7.5%) +1.1% (+3.9%)
	US:	12:00 Housing Starts (April) - Building Permits	+1.8m / +0.3% +1.9m / +0.3%	+1.8m / -1.8% +1.8m / -2.9%
Thu 19th	JPN:	00:50 Machinery Orders (March)	-9.8% (+4.3%)	+3.7% (+3.7%)
	JPN:	00:50 Trade Balance (April) - Exports	-¥414.1bn (+14.7%)	-¥1,150.0bn (+13.8%)
	EU-19:	10:00 ECB Monetary Policy Account (13-14th April)		
	US:	13:30 Philly Fed Manufacturing Index (May)	17.6	16.0
	US:	13:30 Initial Jobless Claims (w/e 9th May)	+203,000	
	US:	13:30 Existing Home Sales (April)	+5.8m / -2.7%	+5.6m / -2.4%
Fri 20th	UK:	00:01 Gfk Consumer Sentiment (May)	-38	-38
	JPN:	00:30 CPI (April) - Core	(+1.2%) (+0.8%)	(+2.1%)
	GER:	07:00 Producer Prices (April)	+4.9% (+30.9%)	+1.4% (+31.4%)
	UK:	07:00 Retail Sales (April) - Ex-Fuel	-1.4% (+0.9%) -1.1% (-0.6%)	-0.2% (-7.2%) -0.2% (-8.4%)
	EU-19:	15:00 Flash EC Consumer Confidence (May)	-22.0	-21.5

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