

Rapid Global Warming

- Markets have become very nervous after US consumer prices surged higher in April, with the headline index rising by 0.8% in the month and core increasing by 0.9%.** Their respective annual rates accelerated to multi-year highs of 4.2% and 3%. This has prompted concerns that the Federal Reserve may hike interest rates or scale back bond purchases sooner than expected. Fed officials have repeatedly said that they expect any jump in inflation to be transitory and thus monetary policy can remain very accommodative, but investors are not convinced. The strong US CPI data have seen a further firming of interest rate futures contracts, which are now pricing in 50bps of rate hikes next year from the current level of 0.125%. Markets see US rates rising to 1% by end 2023 and 2% by end 2025. This is far cry from the start of the year, when they believed Fed hikes were a long way off and rates would not get to 1% until 2025. Meanwhile, in the UK, markets are also now pricing in 50bps of tightening for 2022, having started the year believing that the next move in BoE rates would be downwards, possibly into negative territory.
 - The strong US inflation figures saw the re-emergence of upward pressure on bond yields globally and sent stock markets lower.** The Federal Reserve is sticking to its view that the rise in inflation will be transitory and not require a monetary response. It will hold this line for now as it will take some time to establish if the spurt in inflation is temporary or not. However, the recent observation by US Treasury Secretary Yellen that “It may be that interest rates will have to rise somewhat to make sure our economy doesn’t overheat” must be adding to the doubts in investors’ minds, even though she subsequently clarified that she does not anticipate such action will be necessary.
 - There are multiple sources of price pressures linked to the re-opening of large swathes of economies, but this is no surprise.** As expected, demand is picking up much quicker than supply. Volatile commodity prices were always going to rebound, especially where there are supply shortages. Production processes that have been disrupted by Covid restrictions will take time to recovery fully, while labour market supply is also going to need time to return to normal, given the continuing enhanced income supports and ongoing fears of Covid. Margin widening by firms in sectors that are now re-opening, having been badly impacted by Covid restrictions, seems likely also. Nonetheless, it is reasonable to expect that inflation will eventually ease back as the initial surge in demand abates, fiscal policy is tightened, and supply bottlenecks ease, but central bankers will need to keep a close eye on underlying wage growth and inflation expectations.
 - The majority view on the FOMC is that rate hikes will not be required before 2024, which seems an awful long time away given the boom in activity now underway.** Bond markets and interest rate futures contracts had already moved to discount a much earlier start to monetary tightening. Stock markets, though, driven by the prospects of a period of buoyant economic growth ahead, have climbed to all-time highs recently. They could now be in for a period of volatile trading as they grapple with the conflicting forces of robust growth, rising inflationary pressures and uncertainty around monetary policy. Indeed, as happened in fixed income markets in Q1, a correction now in elevated stock markets would leave them better able to withstand earlier than signalled monetary tightening.
- | Month | US | UK | Eurozone |
|--------|----|----|----------|
| Jul 19 | 50 | 50 | 50 |
| Oct 19 | 50 | 50 | 50 |
| Jan 20 | 50 | 50 | 50 |
| Apr 20 | 15 | 15 | 15 |
| Jul 20 | 55 | 55 | 50 |
| Oct 20 | 55 | 55 | 50 |
| Jan 21 | 55 | 55 | 50 |
| Apr 21 | 65 | 65 | 55 |
- This week, there is a busy data docket in the UK.** Starting with survey data, having jumped to 61.0 in April following the gradual re-opening of the economy, the flash services PMI is projected to edge higher to 62.0 in May. The manufacturing PMI is also expected to remain elevated, well above the key 50 threshold. Meanwhile, consumer confidence for May is forecast to rise to -13 from -15. In terms of hard data, it is envisaged that retail sales will register another strong reading in April following the full re-opening of the High Street in the middle of the month. Having soared by 5.4% in March, the headline sales figure is expected to increase by 4%, lifting sales 5.6% above their pre-pandemic level. Increasing consumer demand though, is likely to add to underlying price pressures. It is anticipated that the headline CPI rate will accelerate to 1.4% from 0.7% in April, owing to a 0.5% rise in the month. The core rate is projected to increase slightly to 1.2% from 1.1%. The Bank of England is of the view that inflation will rise above 2% before the end of 2021, though, it believes that the rise will be transitory. Regarding the labour market, the consensus is that the success of the furlough scheme kept the unemployment rate at 4.9% in March.
 - Across the Atlantic, the flash PMIs for May will be the highlight.** Both indices are likely to be relatively unchanged, remaining well above the key 50 level, having printed at 64.7 (services) and 60.5 (manufacturing) respectively in April. An update on the housing market will be provided, in the form of existing sales and housing starts data (April), plus homebuilder sentiment (May).
 - In the Eurozone, the flash PMIs also feature.** The services PMI is projected to remain on its recent upward trend, rising to 52.0 in May. Meanwhile, the manufacturing PMI is expected to remain firmly in expansion mood, at 62.4. Eurozone consumer confidence is forecast to improve, rising to -6.8 in May, from -8.1, as the vaccine rollout gathers pace.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2021	2021	2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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
		2021	2021	2021
EUR/USD	1.2142	1.21	1.21	1.20
EUR/GBP	0.8608	0.86	0.87	0.87
EUR/JPY	132.73	132	132	131
GBP/USD	1.4103	1.41	1.39	1.38
USD/JPY	109.30	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Tue); Panetta, Lane (Wed); Lane, Lagarde (Thu); Lagarde , de Guindos (Fri)		
	BoE Speakers:	Tenreiro, Vleighe, Haldane (Mon); Cunliffe (Thu)		
	Fed Speakers:	Clarida, Bostic (Mon); Kaplan, Bullard, Bostic (Tue)		
Mon 17th	CHINA:	03:00	Industrial Output (April)	(+14.1%) (+9.8%)
	CHINA:	03:00	Retail Sales (April)	(+34.2%) (+24.9%)
	ITA:	09:00	Final HICP (April)	+0.4% (+1.1%) +0.4% (+1.1%)
	US:	13:30	NY Fed / Empire State Index (May)	26.3 24.0
	US:	15:00	NAHB Housing Sentiment (May)	83 83
Tue 18th	JPN:	00:50	Q1 GDP (First Reading)	+2.8% (+11.7%) -1.2% (-4.6%)
	UK:	07:00	ILO Employment (March) - Unemployment Rate	-73,000 4.9% 4.9%
	UK:	07:00	Average Weekly Earnings (3 months to March) - Ex-Bonus	(+4.5%) (+4.4%) (+4.6%) (+4.6%)
	UK:	07:00	Claimant Count (April)	+10,100
	EU-19:	10:00	Q1 GDP (Second Reading)	-0.6% (-1.8%) -0.6% (-1.8%)
	EU-19:	10:00	Employment (Q1: Second Reading)	+0.3% (-1.9%) +0.3% (-1.9%)
	US:	13:30	Housing Starts (April) - Building Permits	+1.74m / +19.4% +1.76m / +2.3% +1.71m / -1.2% +1.77m / +0.7%
Wed 19th	UK:	07:00	CPI (April) - Core	+0.3% (+0.7%) +0.4% (+1.1%) +0.5% (+1.4%) +0.2% (+1.2%)
	UK:	07:00	PPI Output Prices (April) - Input Prices	+0.5% (+1.9%) +1.3% (+5.9%) +0.4% (+3.5%)
	EU-19:	10:00	Final HICP (April) - Ex-Food & Energy	+0.9% (+1.6%) +0.8% (+0.8%) +0.6% (+1.6%) +0.8% (+0.8%)
	US:	19:00	FOMC Meeting Minutes (27-28th April 2021)	
Thu 20th	JPN:	00:50	Machine Orders (March)	-8.5% (-7.1%) +6.4% (-2.6%)
	JPN:	00:50	Trade Balance (April) - Exports	+¥662.2bn (+16.1%) +¥140.0bn (+30.9%)
	UK:	11:00	CBI Trend Orders (May)	-8
	US:	13:30	Initial Jobless Claims (w/e 10th May)	+473,000
	US:	13:30	Philly Fed Index (May)	50.2 40.0
Fri 21st	UK:	00:01	Gfk Consumer Confidence (May)	-15 -13
	JPN:	00:30	CPI (April) - Core	+0.2% (-0.2%) +0.2% (-0.1%) (-0.2%) (-0.2%)
	JPN:	01:30	Flash Jibun Manufacturing PMI (May)	53.6
	UK:	07:00	Retail Sales (April) - Ex-Fuel	+5.4% (+7.2%) +4.9% (+7.9%) +4.0% (+36.5%) +4.0% (+31.4%)
	FRA:	08:15	Flash Markit Composite PMI (May)	51.6
	GER:	08:30	Flash Markit Composite PMI (May)	55.8 57.2
	EU-19:	09:00	Flash Markit Composite PMI (May) - Manufacturing / Services	53.8 62.9 / 50.5 54.8 62.4 / 52.0
	UK:	09:30	Flash Markit Composite PMI (May) - Manufacturing / Services	60.7 58.9 / 61.0 61.8 60.0 / 62.0
	US:	14:45	Flash Markit Composite PMI (May) - Manufacturing / Services	63.5 60.5 / 64.7 63.4 60.4 / 64.6
	US:	15:00	Existing Home Sales (April)	+6.01m / -3.7% +6.06m / +0.8%
	EU-19:	15:00	Flash Consumer Confidence (May)	-8.1 -6.8

◆ Month-on-month changes (year-on-year shown in brackets)
All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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