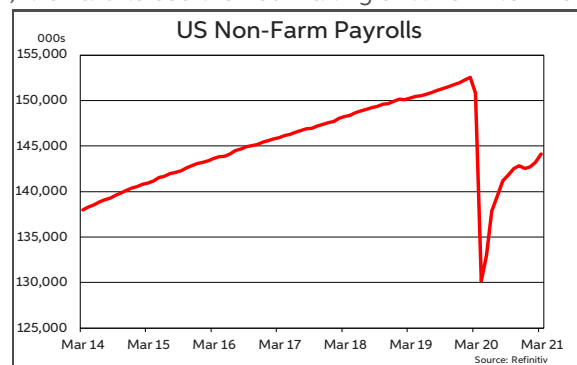


## Canadian Dry Run

- At its meeting last week, the Bank of Canada became the first of the main central banks to begin to row back on policy accommodation by scaling down or “tapering” its QE bond purchases.** It is cutting back its weekly net asset purchases to C\$3 billion from C\$4 billion, saying the move reflected the progress being made in the economy’s recovery. The BoC now expects the Canadian economy will grow by 6.5% this year, up from a forecast of 4% made in January. The upgrade largely reflects the additional fiscal stimulus being provided by the Canadian and US governments. Furthermore, the bank signalled that it could start hiking rates in the second half of 2022, as it now expects economic slack to be absorbed sooner than it had anticipated.
- Other central banks say it is too early in the recovery cycle to start contemplating rowing back on policy accommodation.** Indeed, the ECB has increased the pace of asset purchases in this quarter. Fed Chair, Jerome Powell, again indicated after this week’s FOMC meeting, that it would maintain the current rate of asset purchases for some time. Nonetheless, investors are expecting signals from the Fed over the summer months on when tapering is likely to start. After all, the US economy is also forecast to grow by 6.5% in 2021 and it suffered a smaller fall in GDP of 3.5% in 2020 compared to the 5.4% decline in Canada. Furthermore, the Canadian unemployment rate of 7.5% is well above the US rate of 6%. Less fiscal stimulus is also being provided for the Canadian economy than the US. With the US economy likely to boom over the remainder of the year, it would not be a surprise to see the Fed begin tapering towards the end of 2021 or in early 2022.
- The Bank of Canada is worried though, about a marked pick up in house price inflation, which is running at double digit levels in many parts of the country.** Canadian house prices were already elevated after increasing strongly over the past two decades, and the Bank now fears that households could become ‘overstretched’ and take on too much debt. Hiking interest rates is not seen as an option at present, but these concerns may be making the BoC more inclined to scale back QE. Indeed, we are in the midst of a global house price boom, with double-digit rates of increase in New Zealand, Australia and the US, as well as high single digit rates in the UK and a number of EU countries. The are many common factors; ultra-low interest rates, big jump in household savings, increased fiscal supports, more institutional investors, shift to remote working, a shortage of supply and now an improving economic outlook. The 2020 recession also impacted renters more than home buyers.
- Central banks now rely on macro-prudential or mortgage lending rules to control excessive movements in house prices, but it is hard to avoid the conclusion that the exceptionally loose stance of macro policy is a key factor behind the recent acceleration in house price inflation.** The focus of central banks for now, though, will remain on ensuring that monetary policy helps the broader economy emerge from the deep 2020 recession, and is restored to a sound footing. Markets, though, may well be right to be wary of assurances that monetary policy can remain very accommodative for years to come. One can’t help feeling that when economies return to a more even keel, central banks may change tune and start taking their foot off the pedal rather quickly. In this regard, given the very favourable US economic outlook, it is hard to see the Fed waiting until 2024 to hike rates, as indicated by the FOMC ‘dot-plot’.
- This week, it is the turn of the Bank of England to assess its current loose stance of monetary policy against an ever improving economic outlook.** Similar to the Fed, the MPC is expected to vote unanimously to keep policy on hold. The accompanying Monetary Policy Report will likely show an upgrade to the BoE’s forecast for UK GDP, given the quick pace of the vaccine rollout has allowed the economy to re-open sooner than anticipated. Furthermore, the Budget in March extended fiscal supports to businesses and workers. The BoE is unlikely though, to make any major changes to its forward guidance. The over-arching message from the meeting will continue to be that the MPC does not intend to tighten monetary policy until the amount of spare capacity in the economy has been reduced, and inflation is achieving its 2% target sustainably. There is an otherwise quiet macro calendar in the UK.
- Data-wise, the main highlight will be the April US labour market report.** March payrolls rose by 916k, as the labour market recovery gained momentum. The consensus is for the recovery to continue at pace. Payrolls are expected to grow by 950k in April amid further re-opening of the US economy. The unemployment rate is projected to edge lower to 5.7% from 6.0%. Meanwhile, despite printing at record levels in March, both the manufacturing and non-manufacturing ISMs are forecast to edge slightly higher in April, rising to 65.0 (from 64.7) and 64.3 (from 63.7) respectively.
- In the Eurozone, retail sales are forecast to rise by 1.4% in March.** This would suggest only a meagre pick-up in activity at the end of Q1, and would still leave retail sales 1.5% below their pre-pandemic level. In terms of country specific releases, German and French industrial production data are due.



	Interest Rate Forecasts			
	Current	End Q2 2021	End Q3 2021	End Q4 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 2021	End Q3 2021	End Q4 2021
EUR/USD	1.2083	1.20	1.20	1.21
EUR/GBP	0.8703	0.87	0.88	0.88
EUR/JPY	131.65	130	130	129
GBP/USD	1.3881	1.38	1.36	1.38
USD/JPY	108.94	108	108	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lane (Wed); de Guindos, Schnabel (Thu); <b>Lagarde</b> (Fri)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	<b>Powell</b> (Mon); Daly (Tue); Evans, Mester (Wed), Mester, Kaplan (Thu)		
<b>Mon 3rd</b>	<b>IRL/UK</b>	<b>Bank Holiday</b>		
	<b>GER:</b> 07:00	Retail Sales (March)	+1.2% (-9.0%)	+3.0% (-1.5%)
	<b>EU-19:</b> 09:00	Final Markit Manufacturing PMI (April)	63.3	63.3
	<b>US:</b> 14:45	Final Markit Manufacturing PMI (April)	60.6	60.6
	<b>US:</b> 15:00	Construction Spending (March)	-0.8%	+2.0%
	<b>US:</b> 15:00	Manufacturing ISM (April)	64.7	65.0
<b>Tue 4th</b>	<b>IRL:</b> <b>01:01</b>	<b>AIB Manufacturing PMI (April)</b>	<b>57.1</b>	
	<b>UK:</b> 09:30	Consumer Credit (March)	-£1.25bn	-£0.5bn
	<b>UK:</b> 09:30	Mortgage Approvals (March)	+87,700	+92,300
	<b>UK:</b> 09:30	Final Markit / CIPS Manufacturing PMI (April)	60.7	60.7
	<b>US:</b> 13:30	International Trade (March)	-\$71.1bn	-\$74.0bn
	<b>US:</b> 15:00	Factory Orders (March)	-0.8%	+1.1%
<b>Wed 5th</b>	<b>ITA:</b> 08:45	Markit Composite PMI (April)	51.9	51.9
	<b>FRA:</b> 08:50	Final Markit Composite PMI (April)	51.7	51.7
	<b>GER:</b> 08:55	Final Markit Composite PMI (April)	56.0	56.0
	<b>EU-19:</b> 09:00	Final Markit Composite PMI (April)	53.7	53.7
		- Final Markit Services PMI	50.3	50.3
	<b>EU-19:</b> 10:00	Producer Prices (March)	+0.5% (+1.5%)	+0.9% (+4.0%)
	<b>US:</b> 09:00	Final Markit Composite PMI (April)	62.2	62.2
		- Final Markit Services PMI	63.1	63.1
	<b>US:</b> 15:00	Non-Manufacturing ISM (April)	63.7	64.3
	<b>IRL:</b> <b>16:30</b>	<b>Exchequer Returns (April)</b>	<b>April'20: -€7.5bn</b>	<b>-€8.5bn</b>
<b>Thurs 6th</b>	<b>IRL:</b> <b>01:01</b>	<b>AIB Services PMI (April)</b>	<b>54.6</b>	
	<b>GER:</b> 07:00	Industrial Orders (March)	+1.2%	+1.9%
	<b>UK:</b> 09:30	Final Markit / CIPS Composite PMI (April)	60.1	60.1
		- Final Markit Services PMI	60.0	60.0
	<b>EU-19:</b> 10:00	Retail Sales (March)	+3.0% (-2.9%)	+1.4% (+9.4%)
	<b>IRL:</b> <b>11:00</b>	<b>Unemployment Rate (April)</b>	<b>5.8%</b>	<b>5.8%</b>
		<b>- Covid-19 Adjusted Rate</b>	<b>24.1%</b>	<b>22.5%</b>
	<b>UK:</b> 12:00	BoE Interest Rate Announcement (May)	0.10%	0.10%
	<b>US:</b> 13:30	Initial Jobless Claims (w/e 26th April)	+553,000	+540,000
<b>Fri 7th</b>	<b>GER:</b> 07:00	Industrial Output (March)	-1.6% (-6.1%)	+2.0% (+5.5%)
	<b>GER:</b> 07:00	Trade Balance (March)	+€19.1bn	+€19.0bn
		- Exports	+0.9%	
	<b>FRA:</b> 07:45	Industrial Output (March)	-4.7%	+2.0%
	<b>FRA:</b> 07:45	Trade Balance (March)	-€5.3bn	
		- Exports		
	<b>ITA:</b> 09:00	Retail Sales (March)	+6.6% (-5.7%)	
	<b>US:</b> 13:30	Non-Farm Payrolls (April)	+916,000	+950,000
		- Unemployment Rate	6.0%	5.7%
		- Average Earnings (April)	-0.1% (+4.2%)	+0.1% (-0.3%)
	<b>US:</b> 20:00	Consumer Credit (March)	+\$27.6bn	

◆ 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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