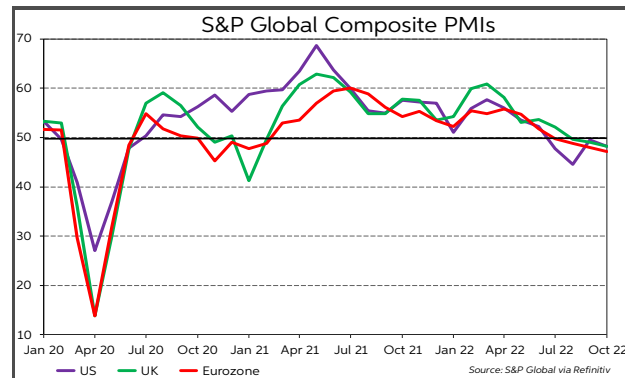


## Seeing the Wood from the Trees

- Economic data have been giving some conflicting signals recently.** Both headline and core inflation rates are easing in the US, while at the same time, they are hitting new highs in Europe, with the summer spike in gas prices there now feeding through into much higher electricity prices. The US continues to print some strong data, most notably on jobs growth and consumer spending. GDP growth could accelerate in this quarter from the 2.6% annualised rate recorded in Q3. By contrast, the UK is likely to be already in recession, with GDP expected to decline for a second consecutive quarter in Q4. Meanwhile, after a weak performance in Q3, Eurozone GDP is expected to decline in this quarter and the opening quarter of 2023, pushing the economy into a technical recession.
- The mood in markets has improved recently, with the decline in inflation in the US and weak economic data in Europe resulting in a scaling back of rate hike expectations, helping risk appetite.** Markets now see US rates peaking at 5%, UK rates reaching 4.6% and Eurozone rates getting to circa 2.9%. Ten year government bond yields have fallen by about 40bps in the US and UK in the past fortnight, with yields in most Eurozone markets down by circa 30bps. Stock markets have performed strongly, with some key indices up by around 10% in the last month. One of the biggest market moves has been the US dollar which has lost significant ground recently. The euro has risen from \$0.975 at the start of the month to a \$1.03-1.04 range, while cable has climbed from \$1.12 to \$1.19. Meanwhile, the yen has staged a mini rebound, with the dollar falling from ¥149 to below ¥140. Other major currencies have also made good gains against the dollar.
- We would be very slow, though, to sound the all clear for markets despite the clear improvement in risk appetite, or to suggest that the dollar has embarked on a prolonged weakening trend.** The US yield curve is becoming highly inverted, which has often been a signal in the past of a looming recession. The spread between 10-year and 2-year yields is now -70bps, the most negative it has been in forty years. Stock markets are likely to have to contend with the risk of a global recession in 2023, which would put company earnings under pressure. The main central banks look set to move to smaller rate hikes of 50bps in December and 25bps hikes in the New Year, before putting policy on hold in the spring. However, rates could become stuck at elevated levels, given it is expected to take some time for inflation to fall back to its 2% target.
- In the very near term, optimism about central banks moving to a less hawkish stance and that inflation has peaked could see stock markets make some further gains.** The dollar could also lose a bit more ground on positioning adjustments following the recent moves. However, 2023 seems likely to be another challenging year for markets as they contend with the risk of recession, while at the same time central banks are hamstrung by high inflation, unable to ease policy. This sounds like a recipe for markets to remain volatile, with investors opting for safe havens like the dollar. We are by no means out of the woods yet.
- This week, the flash PMIs for November in the Eurozone, UK and US will be the highlight.** In recent months, the PMIs have moved into contraction territory, consistent with a fall in economic activity. Indeed, in the Eurozone, both the manufacturing and services PMIs fell into contraction terrain in August and have remained there ever since. These indices are projected to deteriorate further in November. Similarly, in the UK, both the manufacturing and services indices were below 50 in recent months. Both are forecast to decline deeper into contraction mode in November as well. Meantime in the US, the services PMI fell to 43.7 in August, its lowest level since May 2020. However, it has since edged higher, although, it does still remain below the key 50 threshold. The US manufacturing index fell to 50.4 in October, its lowest level since June 2020. In November, the US services sector reading is expected to be little changed, while the manufacturing PMI is forecast to edge into contraction mode.
- Elsewhere in a holiday shortened week in the US, for Thanksgiving, the release of the November FOMC meeting minutes will garner attention.** The post-meeting policy statement indicated that the Fed may slow the pace of rate hikes at its next meeting in December. However, Chair Powell struck a very hawkish tone at the press conference, stating that the peak in US rates is likely to be higher than previously anticipated. A number of Fed speaker's since have also emphasised this point. The release of the minutes may shed further light on the Fed's current thinking on the future path of rate hikes.
- In the Eurozone, the release of the latest monetary policy meeting account will also be of interest for the same reason.** Like the Fed, the ECB has also suggested it may start hiking interest rates in smaller increments. A slew of survey data will also feature in the Eurozone. The EC measure of consumer sentiment is expected to improve in November, but remain at a very low level. In terms of key national releases, the German Ifo, French INSEE and Italian ISTAT measures of sentiment for November are all due.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2022	2023	2023
Fed Funds	3.875	4.375	4.875	4.875
ECB Deposit	1.50	2.00	2.75	2.75
BoE Repo	3.00	3.50	4.00	4.00
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 Q4	End Q1	End Q2
		2022	2023	2023
EUR/USD	1.0330	1.00	1.02	1.04
EUR/GBP	0.8693	0.88	0.89	0.90
EUR/JPY	144.63	142	143	143
GBP/USD	1.1880	1.14	1.15	1.16
USD/JPY	139.98	142	140	138

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	de Guindos (Wed); Schnabel (Thu); de Guindos (Fri)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	Mester, George, Bullard (Tue)		
<b>Mon 21st</b>	<b>GER:</b>	07:00	Producer Prices (October)	+2.3% (+45.8%) +0.9% (+41.5%)
<b>Tue 22nd</b>	<b>EU-19:</b>	15:00	Flash Consumer Confidence (November)	-27.6 -26.0
<b>Wed 23rd</b>	<b>FRA:</b>	08:15	Flash S&P Composite PMI (November)	50.2 49.6
	<b>GER:</b>	08:30	Flash S&P Composite PMI (November)	45.1 44.9
	<b>EU-19:</b>	09:00	Flash S&P Composite PMI (November)	47.3 47.0
			- Manufacturing / Services	46.4 / 48.6 46.0 / 48.1
	<b>UK:</b>	09:30	Flash CIPS / S&P Composite PMI (November)	48.2 47.5
			- Manufacturing / Services	46.2 / 48.8 45.6 / 48.0
	<b>US:</b>	13:30	Durable Goods (October)	+0.4% +0.4%
			- Ex-Transport	-0.5% +0.1%
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 7th November)	+222,000
	<b>US:</b>	14:45	Flash S&P Composite PMI (November)	48.2 48.0
		- Manufacturing / Services	50.4 / 47.8 49.8 / 47.7	
<b>US:</b>	15:00	Final Uni. Michigan Consumer Sentiment (Nov)	54.7 55.0	
<b>US:</b>	15:00	New Home Sales (October)	+0.6m / -10.9% +0.6m / -5.5%	
<b>US:</b>	19:00	Fed FOMC Meeting Minutes (1st-2nd Nov)		
<b>Thu 24th</b>		<b>Thanksgiving (US Market Holiday)</b>		
	<b>JPN:</b>	00:30	Flash S&P / Jibun Composite PMI (November)	51.8
	<b>FRA:</b>	07:45	INSEE Business Climate (November)	103 102
	<b>GER:</b>	09:00	Ifo Business Climate (Nov)	84.3 85.0
	<b>EU-19:</b>	11:00	ECB Monetary Policy Account (19th-20th Oct)	
	<b>UK:</b>	11:00	CBI Trends - Orders (Nov)	-4
	<b>IRL:</b>	<b>11:00</b>	<b>Labour Force Survey (Q3 2022)</b>	
			<b>- Unemployment Rate</b>	<b>4.5%</b> <b>4.4%</b>
<b>Fri 25th</b>	<b>GER:</b>	07:00	GDP (Q3: Third Reading)	+0.3% (+1.2%) +0.3% (+1.2%)
	<b>GER:</b>	07:00	Consumer Sentiment (December)	-41.9 -39.6
	<b>FRA:</b>	07:45	Consumer Confidence (Nov)	82 84
	<b>ITA:</b>	08:00	ISTAT Consumer Confidence (Nov)	90.1
	<b>ITA:</b>	08:00	ISTAT Business Confidence (Nov)	100.4

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

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