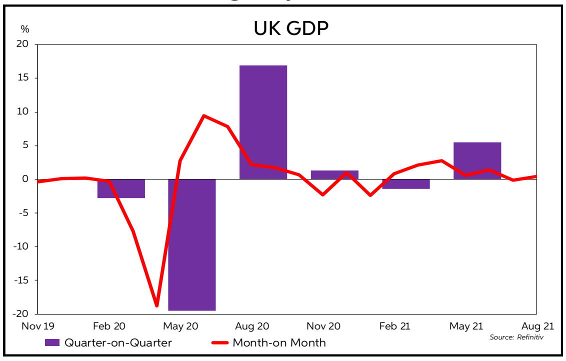
Weekly Market Brief

AIB Treasury Economic Research Unit

8th - 12th November 2021

Patient on Policy

- **The November policy meeting of the Bank of England concluded with the key official rate unexpectedly remaining unchanged at 0.1%.** In the lead up to the meeting, market expectations had hardened on the prospect of a near term rate hike on the back of a number of hawkish comments from BoE Governor Bailey. This included him stating that the BoE "will have to act" to curb rising inflation. On top of this, no MPC member, including Governor Bailey, had sought to downplay market expectations of a November rate hike. As a result, futures contracts had priced in a 15bps rate rise for this month's meeting. The voting split was 7 to 2 in favour of no change. Despite his hawkish comments, the Governor did not follow through by voting himself for a rate hike.
- **However, the BoE did state that if incoming data were in line with its latest forecasts, then it would be "necessary over the coming months to increase rates" to achieve its objective of returning inflation sustainably to a 2% target.** Indeed, it referenced a number of times that a 1% Bank rate would be consistent with reaching its inflation target. The latest BoE forecasts see inflation falling to 1.9%, just below the 2% target, by end 2024. This is based on official rates rising to 1% by Q4 2022 and remaining around this level over the following two years. Not surprisingly, there were significant moves in markets following the BoE meeting. A rate hike is now not expected until early next year. Meanwhile, the market is now envisaging that rates will get to 1% by end 2022, instead of 1.25% prior to the meeting. Short-dated gilt yields have fallen by 25bps, with longer dated yields down by 15-20bps. On currency markets, sterling fell by circa 1%.
- **The BoE meeting was the fourth in the past week, where central banks have knocked back on rate hike expectations.** The ECB has been quite blunt, with President Lagarde saying that despite the current inflation surge, the outlook for inflation over the medium term remains subdued and conditions for interest rate hikes in the Eurozone are very unlikely to be satisfied next year. Fed Chair Powell said the Fed can be patient about rate hikes, which he indicated could perhaps come in late 2022 in the US if employment has recovered sufficiently by then. Meanwhile, despite market expectations of an Australian rate hike by May, Governor Lowe stated the latest data and forecasts do not warrant an increase in rates in 2022.
- **Given these forthright comments from other central banks, it was going to be difficult for the BoE to buck the trend and hike yesterday.** Markets, though, are not taking the central bankers messages fully on board. Euro markets are still pricing in that the ECB will increase rates by 15bps next year, with another 25bps hike expected in 2023. In the US, markets see the Fed hiking by 25bps next September, followed by a series of rate increases in 2023. The view of central banks remains that the spike in inflation will not be sustained and annual rates should start to fall back towards target from around the middle of next year. There is plenty of scope for further bouts of volatility in markets given it will be some time before it becomes clear whether or not the rise in inflation is temporary. The trend in energy prices, in particular, will be important in this regard. Notably, the BoE indicated that if wholesale energy prices fell back as predicted by futures contracts, then inflation would decline to well below target by 2023.
- **The Bank of England noted that the economy had lost some momentum since mid-year owing to the Delta variant and supply chain disruptions.** This week, the first reading of Q3 GDP will provide us with an insight into the scale of the slowdown in activity. Monthly readings of GDP show that output declined by 0.1% in July before rebounding by 0.4% in August. A further rise of 0.4% is forecast for September, which would be enough to get the quarterly reading to 1.5% in Q3, down from 5.5% in Q2. Meanwhile, industrial production is projected to rise by a meagre 0.1% in September, which would still leave production 1.2% below its pre-Covid level.



- **Industrial production data for September are also due in the Eurozone.** The consensus is for a small 0.2% fall in the month, but there are some downside risks to the forecast, as German and French production declined by over 1% in September. **Across the Atlantic, in the US, the latest reading of CPI inflation will garner close attention.** Having reached 5.4% in June, CPI has stabilised around that level in Q3. However, inflation is set to accelerate once again in October, as prices are forecast to rise by 0.6%, lifting the year-on-year rate to 5.8%. The core rate is expected to jump to 4.3% from 4%. The Fed though, is still of the view that the factors contributing to the surge in prices will abate during next year. Elsewhere in the US, the first reading of consumer sentiment for November will be released.

Interest Rate Forecasts

	Current	End Q4 2021	End Q1 2022	End Q2 2022
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	0.35	0.50
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 Q4 2021	End Q1 2022	End Q2 2022
EUR/USD	1.1549	1.16	1.15	1.14
EUR/GBP	0.8560	0.85	0.84	0.83
EUR/JPY	131.13	132	131	130
GBP/USD	1.3491	1.36	1.37	1.37
USD/JPY	113.51	114	114	114

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 8th - Friday 12th November

Date	*UK & Irish Time*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Lagarde,** Panetta, Lane, Lane (Mon); de Guindos, Panetta, **Lagarde,** Schnabel (Wed); Lane, Schnabel (Thu); Lane (Fri)		
	BoE Speakers:		**Bailey** (Tue) Haskel (Fri)		
	Fed Speakers:		**Powell,** Clarida, Montgomery, Bowman, Harker, Evans (Mon); **Powell,** Bullard, Daly, Kashkari (Tue); Williams (Fri)		
Mon 8th	**EU-19:**	09:30	EU Sentix (November)	16.9	15.5
Tue 9th	**JPN:**	05:00	Economy Watchers Poll (October)	42.1	
	GER:	07:00	Trade Balance (September)	+€13Bn	+€13.5Bn
			- Exports	-1.2%	+0.0%
	GER:	10:00	ZEW Economic Sentiment (November)	22.3	20.0
	US:	11:00	NFIB Business Optimism (October)	99.1	
	US:	13:30	PPI Final Demand (October)	+0.5% (+8.6%)	+0.5% (+8.6%)
			- Ex-Food & Energy	+0.2% (+6.8%)	+0.5% (+6.8%)
Wed 10th	**CHINA:**	01:30	CPI (October)	+0.0% (+0.7%)	+0.6% (+1.4%)
	CHINA:	01:30	PPI (October)	(+10.7%)	(+12.0%)
	GER:	07:00	Final HICP Inflation (October)	+0.5% (+4.6%)	+0.5% (+4.6%)
	ITA:	09:00	Industrial Output (September)	-0.2% (+0.0%)	+0.2% (+4.9%)
	US:	13:30	CPI (October)	+0.4% (+5.4%)	+0.6% (+5.8%)
			- Core-CPI	+0.2% (+4.0%)	+0.4% (+4.3%)
	US:	13:30	Initial jobless Claims (w/e 1st November)	+269,000	+265,000
Thu 11th	**UK:**	00:01	RICS Housing Survey (October)	68	
	UK:	07:00	GDP (Q3 Preliminary Reading)	+5.5% (+23.6%)	+1.5% (+6.8%)
	UK:	07:00	GDP (September)	+0.4% (+6.9%)	+0.4% (+5.4%)
	UK:	07:00	Industrial Production (September)	+0.8% (+3.7%)	+0.1% (+3.0%)
			- Manufacturing Output	+0.5% (+4.1%)	+0.1% (+3.1%%)
	UK:	07:00	Goods Trade Balance (September)	-£14.9Bn	
			- Non-EU	-£8.4Bn	
	IRL:	***11:00***	***CPI (October)***	***+0.5% (+3.7%)***	***+0.1% (+4.4%)***
Fri 12th	**SPA:**	08:00	Final HICP (October)	+1.7% (+5.5%)	+1.7% (+5.5%)
	EU-19:	10:00	Industrial Production (September)	-1.6% (+5.1%)	-0.2% (+4.5%)
	US:	15:00	Preli. Michigan Consumer Sentiment (Nov.)	71.7	72.5
	US:	15:00	Jolts Job Openings (September)	+10.439m	

♦ *Month-on-month changes (year-on-year shown in brackets)*