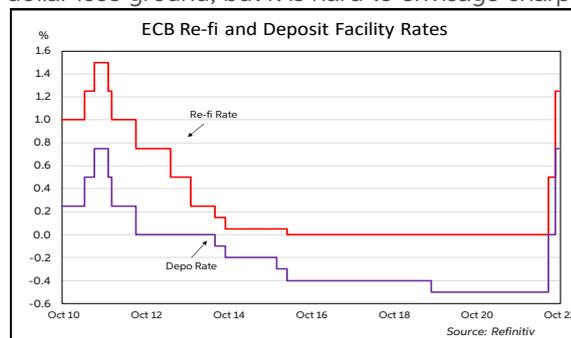


## Currency Affairs

- **The dollar has risen to its highest level on a trade-weighted basis since 2002.** It has made significant gains against a broad range of currencies in the past year, on firming US interest rates. The Fed has been the most aggressive of the main central banks in hiking rates this year, with the funds rate raised from 0.125% to 3.125% since March. It has also been the most vocal on the need for continued significant rate hikes to counteract high inflation. As a result, futures contracts are pricing that US rates will rise to 5% by next spring.
- **The Russian invasion of Ukraine has also contributed to dollar strength in terms of a flight-to-quality into the world's largest reserve currency on the resulting increased geo-political tensions and as financial markets came under pressure.** It is difficult to envisage a significant reversal in the dollar's fortunes anytime soon as it should be supported by further moves upwards in US interest rates and accompanying relatively high US bond yields. Markets also seem likely to remain volatile, which would point to continuing flows into traditional safe-haven currencies like the dollar. Geo-political risks are also expected to remain elevated.
- **Not surprisingly, given the slowness of the ECB to hike rates and the Eurozone's closer trade and financial ties with Russia and in particular its reliance on imports of gas from there, the euro has come under a lot of pressure against the strong dollar this year.** The EUR-USD rate has been on a steady downward path since the start of 2022, declining from around \$1.14 in January to breach parity in late summer and move below \$0.96 in September. The last time that the euro dropped below parity, it spent almost three years there over the period 2000-2002, falling to \$0.83 at one point. From a euro viewpoint, the fact that the ECB is now engaged in delivering a series rate hikes that are expected to extend well into 2023 should prove beneficial for the currency. However, the war in Ukraine is likely to continue to pose an ongoing risk for the euro, especially with the virtual cessation of gas imports from Russia, which could eventually lead to power cuts in Europe late next year.
- **Overall, our base case is that with further significant ECB rate hikes on the agenda, the euro could continue to trade within its recent range of \$0.95-1.00 against the dollar in the coming months.** Indeed, it is worth pointing out that the euro has made good gains against most of the major currencies since late summer, including the Swiss franc, yen, sterling and the Aussie, Kiwi and Canadian dollars, as well as the Scandi currencies. The US dollar, though, still very much has the upper hand on forex markets. Other central banks may not have the appetite to match the scale of rate hikes delivered in the US. It is only when US rates peak that dollar strength may begin to subside. In this regard, futures contracts are discounting that the Fed could start to cut rates by end 2023, with rates falling to 4% by end 2024. This may see the dollar lose ground, but it is hard to envisage sharp losses for the currency as US interest rates would still be relatively high.
- **This week the market spotlight will turn to the ECB monetary policy meeting.** A second consecutive 75bps rate hike is widely expected. This would bring the deposit rate up to 1.5%. Reports suggest that the Governing Council has held discussions regarding its bond-buying programmes over the past number of weeks, with a view to starting QT at some point down the road. However, any announcement on QT is unlikely this week. Decisions may be taken though, in relation to other unconventional monetary policy tools, such as TLTRO and tiering, as the ECB considers its options in draining some of the excess liquidity from the banking system. At the press conference, investors, who currently see the deposit rate rising to 2% by year end and to circa 3% in 2023, will be paying close attention to comments regarding the future path of rate hikes.
- **There is also a very busy data docket ahead in the Eurozone this week.** The first readings of Q3 GDP for some of the blocs largest economies including Germany, France and Italy are projected to show a slowdown in activity. The consensus is that the German economy contracted in Q3. A plethora of more timely survey data for Q4 are also due. The bellwether German Ifo is projected to fall to 83.3 from 84.3. Meanwhile, the Eurozone flash PMIs are forecast to remain below the key 50 level in October, consistent with a contraction in activity at the start of Q4. Similarly, the EC sentiment indices are set to deteriorate in October, as the surge in inflation weighs on household/business confidence. The flash readings of HICP for October in Germany, France, Italy and Spain are due, and are set to remain at very elevated levels.
- **GDP and inflation data will be in focus in the US as well.** Starting with inflation, core-PCE is forecast to have edged up to 5.2% in September. Worryingly, a 1.3% rise in the employment cost index is pencilled in for Q3 also. Meanwhile, having contracted in Q1 and Q2, largely due to a slowdown in inventory accumulation, GDP is projected to have expanded by 2.4% in annualised terms in Q3. However, a further fall below 50 in the flash composite PMI reading is anticipated in October, indicating a slowdown in underlying economic activity. The Conference Board measure of consumer confidence is also likely to have softened in October.

**In the UK, like elsewhere, it is envisaged the flash PMIs were both in contraction territory in October.**



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2022	2023	2023
Fed Funds	3.125	4.375	4.625	4.625
ECB Deposit	0.75	2.00	2.75	2.75
BoE Repo	2.25	3.75	4.50	4.50
BoJ OCR	-0.10	-0.10	-0.10	-0.10

Current Rates Reuters, Forecasts AIB's EU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2022	2023	2023
EUR/USD	0.9775	0.96	0.99	1.02
EUR/GBP	0.8765	0.89	0.90	0.90
EUR/JPY	148.17	142	148	151
GBP/USD	1.1149	1.08	1.10	1.13
USD/JPY	151.53	148	149	148

Current Rates Reuters, Forecasts AIB's EU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>			
	<b>BoE Speakers:</b>	Pill (Tue)		
	<b>Fed Speakers:</b>	Waller (Tue); Logan, George (Thu)		
<b>Mon 24th</b>	<b>JPN:</b>	01:30 Flash S&P / Jibun Composite PMI (October)	51.0	
	<b>FRA:</b>	08:15 Flash S&P Composite PMI (October)	51.2	50.4
	<b>GER:</b>	08:30 Flash S&P Composite PMI (October)	45.7	45.2
	<b>EU-19:</b>	09:00 Flash S&P Composite PMI (October)	48.1	47.6
		- Manufacturing / Services	48.4 / 48.8	48.0 / 48.2
	<b>UK:</b>	09:30 Flash CIPS / S&P Composite PMI (October)	49.1	48.2
		- Manufacturing / Services	48.4 / 50.0	48.0 / 49.0
	<b>US:</b>	14:45 Flash S&P Composite PMI (October)	49.5	49.3
		- Manufacturing / Services	52.0 / 49.3	51.2 / 49.1
<b>Tue 25th</b>	<b>GER:</b>	09:00 German Ifo (October)	84.3	83.3
	<b>UK:</b>	11:00 CBI Trends- Orders (October)	-2	
	<b>UK:</b>	11:00 CBI Business Optimism (Q4)	-21	
	<b>US:</b>	14:00 Case-Shiller House Prices (August)	-0.8% (+16.1%)	
	<b>US:</b>	15:00 Conference Board Consumer Confidence (Oct)	108.0	106.5
<b>Wed 26th</b>	<b>FRA:</b>	07:45 INSEE Consumer Confidence (October)	79	77
	<b>EU-19:</b>	09:00 M3 Annual Money Growth (September)	6.1%	6.1%
	<b>US:</b>	15:00 New Home Sales (September)	0.7m / +28.8%	+0.6m / -13.9%
<b>Thu 27th</b>	<b>GER:</b>	07:00 Gfk Consumer Sentiment (November)	-42.5	-41.8
	<b>ITA:</b>	09:00 ISTAT Business Confidence (October)	101.3	100.0
	<b>ITA:</b>	09:00 ISTAT Consumer Confidence (October)	94.8	93.8
	<b>IRL:</b>	<b>11:00 New Dwelling Completions (Q3 2022)</b>	<b>Q3'21: +4,645</b>	<b>+5,000</b>
	<b>EU-19:</b>	13:15 ECB Interest Rate Announcement		
		- Deposit Rate / Refi Rate	+0.75% / 1.25%	+1.5% / 2.0%
	<b>EU-19:</b>	13:45 ECB Press Conference		
	<b>US:</b>	13:30 GDP (Q3: Advance Reading)	-0.6% s.a.a.r.	+2.4% s.a.a.r.
	<b>US:</b>	13:30 Core-PCE Prices (Q3: Advance Reading)	+4.7%	
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 17th October)	+214,000	+225,000
<b>Fri 28th</b>	<b>JPN:</b>	00:30 BoJ Interest Rate Decision	-0.10%	-0.10%
	<b>JPN:</b>	00:30 Jobs/Applicants Ratio (September)	1.32	1.33
	<b>JPN:</b>	00:30 Unemployment Rate (September)	2.5%	2.5%
	<b>FRA:</b>	07:30 GDP (Q3: Flash Reading)	+0.5% (+4.2%)	+0.2% (+1.0%)
	<b>FRA:</b>	07:45 Flash HICP (October)	-0.5% (+6.2%)	+0.6% (+6.4%)
	<b>SPA:</b>	08:00 GDP (Q3: Flash Reading)	+1.5% (+6.8%)	+0.3% (+6.7%)
	<b>SPA:</b>	08:00 Flash HICP (October)	-0.2% (+9.0%)	+0.3% (+8.1%)
	<b>GER:</b>	09:00 GDP (Q3: Flash Reading)	+0.1% (+1.7%)	-0.2% (+0.8%)
	<b>EU-19:</b>	10:00 EC Economic Sentiment (October)	93.7	92.5
		- Consumer / Services / Industrial	-27.6 / 4.9 / -0.4	-27.6 / 3.3 / -2.0
	<b>ITA:</b>	10:00 Flash HICP (October)	+1.6% (+9.4%)	+1.4% (+9.9%)
	<b>IRL:</b>	<b>11:00 Retail Sales (September)</b>	<b>+2.0% (-5.6%)</b>	<b>+0.0% (-4.8%)</b>
	<b>GER:</b>	13:00 Flash HICP (October)	+2.2% (+10.9%)	+0.6% (+10.9%)
	<b>US:</b>	13:30 Personal Income / Consumption	+0.3% / +0.4%	+0.3% / +0.4%
	<b>US:</b>	13:30 PCE Prices (September)	+0.3% (+6.2%)	
		- Core-PCE Prices	+0.6% (+4.9%)	+0.5% (+5.2%)
	<b>US:</b>	13:30 Employment Cost Index	+1.3%	+1.3%
	<b>US:</b>	15:00 Final Uni. Michigan Consumer Sentiment (Oct)	59.8	59.8

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