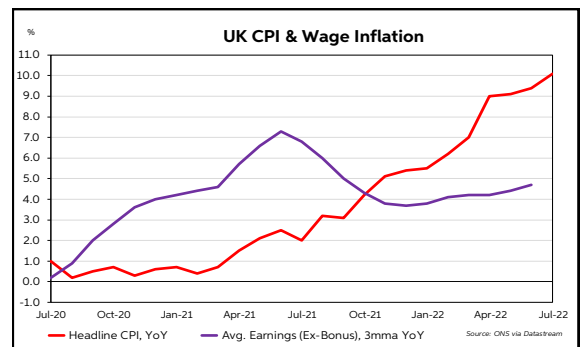


## Birds of a Hawkish Feather

- It has been quite noticeable over the last number of weeks, that central bankers have been very keen to emphasise their resolve and credentials to tackle higher than expected and more persistent inflation, by implementing an aggressive front loading of rate hikes.** They are willing to do this even if the extent of rate hikes they are planning will be a significant headwind to their respective economies in the near term. They view this as being more favourable than a scenario whereby, inflation spirals further out of control, there is a de-anchoring of inflation expectations, and official interest rates have to be hiked by a much greater magnitude, resulting in a more severe and longer lasting downturn.
- This hawkish mantra was clearly evident over the past week.** In the US, Fed Chair Powell along with a raft of other FOMC members reiterated that their number one priority is to bring down high inflation. We also had the ECB implement its largest ever rate hike, announcing a 75bps increase in interest rates. This followed a 50bps increase at its previous meeting in July, when it ended its negative interest rate policy. The deposit rate will rise to 0.75% (from 0.0%), while the refi rate will increase to 1.25% (0.50% previously). The ECB's frontloading of rate hikes is against the backdrop of inflation being at an all-time high of 9.1%, and the fact that it is likely to stay above its 2% target for an extended period. Therefore, the ECB concluded unanimously, after a thorough discussion, it needed to frontload its rate hikes to ensure a timely return to its 2% inflation target over the medium term.
- Inflation concerns within the ECB are highlighted in their updated macro projections.** It revised higher its 2022 inflation forecast to 8.1% (from 6.8%). For 2023, it expects inflation to average 5.5% (was 3.5%). It also upped its 2024 projection to 2.3% (from 2.1%). Meantime, it downgraded its growth forecasts for the period 2023-24. It stated that it anticipates the economy will stagnate later this year and into Q1'23, with the hit to consumers purchasing power from very high energy prices, supply bottlenecks, and the impact on consumer/business confidence from geopolitical risks (esp. War in Ukraine), combining to dampen economic activity. Its growth forecasts for 2022 and 2023 are now 0.9% and 1.9%, respectively.
- The ECB guided that it expects over the next several meetings to raise interest rates further.** President Lagarde suggested this could be over 3-4 meetings, while continuing to emphasise that future policy decisions will be data dependent and made on a meeting-by-meeting basis. However, the President provided no indication as to where the ECB sees the terminal rate. She stated that the ECB is still far away from the rate it hopes will help bring inflation back to its 2% target. There are two ECB meetings remaining this year (Oct 27th and Dec 15th). Futures contracts suggest that the market sees the Depo rate ending 2022 at 1.75%. Further out, the market is anticipating the rate will reach 2.25% by mid'23 and stabilise in and around this level into the end of next year.
- This week, the monetary policy spotlight was supposed to be on the Bank of England.** However, in light of the period of national mourning now being observed in the UK, the meeting has been postponed until Thursday, 22nd of September. As a result, the focus shifts to the data schedule and some key releases that could influence monetary policy.
- Starting with UK inflation, headline CPI jumped in July to 10.1% from 9.4%.** Core CPI rose to 6.2% from 5.8% also. The BoE forecasts that CPI inflation could peak above 13% in October. The Government's plan to cap household energy prices though, should help to reduce the peak in UK inflation. The consensus is for headline CPI to rise to 10.2% and core CPI to edge higher to 6.3% in August. Tight conditions in the labour market have increased the risk of a wage-price spiral taking hold. The jobless rate was at 3.8% in June, a near fifty year low, while average earnings were up 5.1% y/y. The former is projected to remain at 3.8% in July, while the latter is forecast to inch up to 5.2% y/y. Meanwhile, it is envisaged that GDP rebounded by 0.5% in July, having contracted by 0.6% in June, partly due to an extended bank holiday weekend.
- In the US, inflation data will also be to the fore this week.** However, unlike in the UK, headline CPI declined to 8.5% in July, while core CPI, which had been trending lower since March, remained unchanged at 5.9%. A slight uptick in the core rate to 6.0% is pencilled in for August, although, headline CPI is forecast to fall to 8.1%. Elsewhere in the US, retail sales and industrial production (August), as well as the Michigan measure of consumer sentiment (September) will feature.
- The Eurozone schedule is relatively quiet this week.** Industrial output is projected to fall by 0.8% in July. Meanwhile, the German ZEW is set to deteriorate for the fifth month in six, in August



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022			2023
Fed Funds	2.375	2.875	3.375	3.625
ECB Deposit	0.75	0.75	1.75	2.00
BoE Repo	1.75	2.25	3.00	3.25
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 Q3	End Q4	End Q1
	2022			2023
EUR/USD	1.0064	1.01	1.03	1.05
EUR/GBP	0.8683	0.86	0.86	0.86
EUR/JPY	142.98	142	142	142
GBP/USD	1.1588	1.17	1.20	1.22
USD/JPY	142.02	141	138	135

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	de Guindos, Schnabel (Mon); Lane (Wed); de Guindos (Thu)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>			
<b>Mon 12th</b>	<b>UK:</b>	07:00 Goods Trade Balance (July)	-£22.9bn	
	<b>UK:</b>	08:00 GDP (July)	-0.6% (+1.9%)	+0.5% (+2.6%)
		- 3m/3m	+1.1%	+0.1%
	<b>UK:</b>	08:00 Industrial Output (July)	-0.9% (+%)	+0.4% (+2.0%)
		- Manufacturing Output (July)	-1.6% (+1.3%)	+0.6% (+1.7%)
<b>Tue 13th</b>	<b>GER:</b>	07:00 Final HICP (August)	+0.4% (+8.8%)	+0.4% (+8.8%)
	<b>UK:</b>	07:00 Unemployment Rate (July)	3.8%	3.8%
	<b>UK:</b>	07:00 Average Earnings (3 mnths to July)	(+5.1%)	(+5.2%)
		- Ex-Bonus	(+4.7%)	(+5.0%)
	<b>UK:</b>	07:00 Claimant Count (August)	-10,500	
	<b>SPA:</b>	08:00 Final HICP (August)	+0.1% (+10.3%)	+0.1% (+10.3%)
	<b>GER:</b>	10:00 ZEW Economic Sentiment (September)	-55.3	-60.0
	<b>US:</b>	11:00 NFIB Small Business Optimism (August)	89.9	
	<b>US:</b>	13:30 CPI Inflation (August)	+0.0% (+8.5%)	-0.1% (+8.1%)
		- Core CPI	+0.3% (+5.9%)	+0.3% (+6.0%)
<b>Wed 14th</b>	<b>UK:</b>	07:00 CPI Inflation (August)	+0.6% (+10.1%)	+0.6% (+10.2%)
		- Core CPI	+0.3% (+6.2%)	+0.8% (+6.3%)
	<b>UK:</b>	07:00 PPI Input Prices (August)	+0.1% (+22.6%)	
		- Output prices	+1.6% (+17.1%)	
	<b>EU-19:</b>	10:00 Industrial Production (July)	+0.7% (+2.4%)	-0.8% (+0.6%)
	<b>IRL:</b>	<b>11:00 Residential Property Prices (July)</b>	<b>+1.2% (+14.1%)</b>	<b>+0.7% (+13.0%)</b>
	<b>US:</b>	13:30 PPI Final Demand (August)	-0.5% (+9.8%)	-0.1%
		- Ex-Food & Energy	+0.2% (+7.6%)	+0.3%
<b>Thu 15th</b>	<b>JPN:</b>	00:50 Trade Balance (August)	-¥1,436bn	-¥2,398bn
		- Exports	(+19.0%)	(+23.6%)
	<b>FRA:</b>	07:45 Final HICP (August)	+0.4% (+6.5%)	+0.4% (+6.5%)
	<b>EU-19:</b>	10:00 Trade Balance (July)	-€30.8bn	
	<b>US:</b>	13:30 NY Fed / Empire State Index (September)	-31.3	-15.25
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 5th September)	+222,000	
	<b>US:</b>	13:30 Philly Fed Index (September)	6.2	3.5
	<b>US:</b>	13:30 Retail Sales (August)	+0.0% (+10.3%)	+0.0% (+9.3%)
		- Ex-Autos	+0.4%	+0.0%
		- Control	+0.8%	
	<b>US:</b>	14:15 Industrial production (August)	+0.6% (+3.9%)	+0.2% (+4.1%)
		- Manufacturing Output	+0.7%	+0.1%
		- Capacity Utilisation	80.3%	80.3%
<b>Fri 16th</b>	<b>CHINA:</b>	03:00 Retail Sales (August)	(+2.7%)	(+4.0%)
	<b>CHINA:</b>	03:00 Industrial Production (August)	(+3.8%)	(+4.0%)
	<b>UK:</b>	07:00 Retail Sales (August)	+0.3% (-3.4%)	-0.6% (-4.2%)
		- Ex-Fuel	+0.4% (-3.0%)	-0.7% (-3.4%)
	<b>EU-19:</b>	10:00 Final HICP (August)	+0.5% (+9.1%)	+0.5% (+9.1%)
		- Ex-Food & Energy	+0.6% (+5.5%)	+0.6% (+5.5%)
	<b>ITA:</b>	10:00 Final HICP (August)	+0.8% (+9.0%)	+0.8% (+9.0%)
	<b>US:</b>	15:00 Preli. Uni. Michigan Consumer Sentiment (Sept.)	58.2	59.8

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

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