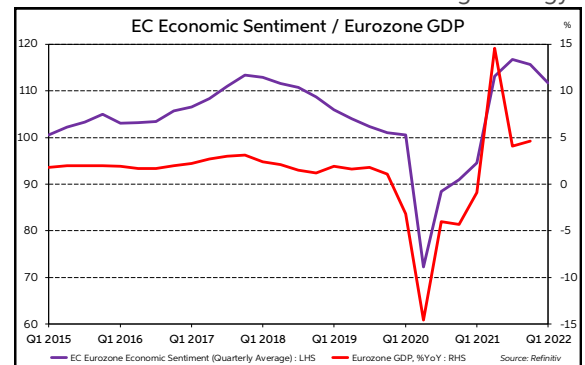


The Heat is On

- **There has been a remarkable hardening of Eurozone interest rate futures contracts since early March.** The initial view of markets was that the Russian invasion of Ukraine greatly reduced the likelihood of an ECB rate hike this year. However, markets have since done a complete somersault and now expect at least three 25bps rate hikes before the year is out, possibly starting as early as July. The three month futures contract for July has firmed by 25bps since early March. Meanwhile, the December 2022 futures contract has hardened by 70bps, with the December 2023 futures moving by 130bps. So not only are markets now pricing in a minimum of three 25bps rate hikes for the second half of this year that would take the deposit rate from -0.5% to 0.25%, they are also looking for the ECB to continue raising rates by a further 125bps to 1.5% over the course of 2023.
- **The ECB decision in March to bring forward the end date for net asset purchases under its QE programme to Q3 2022, with guidance that rate hikes could begin some time after, opened the door for earlier rate hikes.** It has indicated that a decision on the exact timing for the conclusion of net asset purchases would be made at its June policy meeting. There seems to be a growing consensus among the ECB Council members that asset purchases should end around mid-year. This means that the ECB Council meeting in late July could well deliver a rate hike, and this is now close to being fully priced in by the market.
- **In this regard, the ECB has emphasised that in the current highly uncertain environment, it will maintain optionality, gradualism and flexibility in regard to the conduct of monetary policy.** Some Council members are very open to the idea of a July hike. However, both the ECB President and Vice-President have indicated that rate increases will depend on incoming data and the ECB's evolving outlook for the economy and inflation. The ECB's next set of macro-economic projections, which are to be issued at the June Council meeting, will be crucial in this regard. The flash PMI indices for April were stronger than expected, rising from their March level, suggesting the economy may be proving more resilient than anticipated. With inflation elevated, negative or even zero interest rates look set to be consigned to the history books by end 2022.
- **Further out, the latest IMF forecasts published this week, project a marked slowdown in growth in the Eurozone economy, with inflation also decelerating rapidly to an average rate of 2.3% next year and 1.8% in 2024 and 2025.** This would not be consistent with a rate tightening cycle that extended to the end of next year, amounting to 200bps. However, the IMF emphasised the considerable uncertainty around its projections, which it says is well beyond the usual range. It notes that inflation could turn out to be higher than expected, while central banks may need to adjust policy aggressively should CPI rates remain persistently elevated. This chimes with the ECB view that it needs to maintain optionality and flexibility on monetary policy given the highly uncertain environment. For now though, with inflation running at 7.4%, the heat is increasing on the ECB to get moving on hiking rates before too long.
- **A slew of key Eurozone data will be of keen interest this week.** As mentioned, HICP inflation rose to 7.4% in March. This was largely driven by a 12.2% jump in energy prices in the month linked to Russia's invasion of Ukraine. Although energy prices are very unlikely to accelerate by anywhere near this rate in April, the consensus is for headline HICP to remain at 7.4%. However, lower wholesale oil and gas prices, as well as a cut to fuel tax in Germany poses some downside risk to the forecast. Meanwhile, the first reading of Eurozone Q1 GDP is projected to show the economy grew by 0.3% again in the first three months of the year, as contrasting pressures from the re-opening of economies and the war in Ukraine impacted growth. However, the EC sentiment indices are expected to decline slightly in April, suggesting that activity may have slowed at the start of Q2. The German Ifo is forecast to fall again in April, having dropped sharply in March.
- **Inflation and GDP data are due in the US as well.** Starting with inflation, it is envisaged that prices as measured by core-PCE rose by 0.3% in March, edging the year-on-year rate up to 5.5% from 5.4%. Meanwhile, regarding wage inflation, the employee cost index is projected to rise by 1.1% in Q1. In terms of GDP, growth is expected to slow sharply to 1% in annualised terms in Q1, from 6.9% in Q4 2021, in part due to a rundown of inventories built up at the end of last year. However, real final sales are likely to accelerate from 1.5% in Q4. Elsewhere, the Conference Board measure of consumer confidence (April) is due. **There is a relatively quiet data schedule in the UK this week, with Nationwide house prices the only release of note.**



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2022	2022	2022	2022
Fed Funds	0.375	1.375	1.875	2.375
ECB Deposit	-0.50	-0.50	0.00	0.25
BoE Repo	0.75	1.25	1.75	1.75
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	End Q3	End Q4
	2022	2022	2022	2022
EUR/USD	1.0802	1.09	1.10	1.11
EUR/GBP	0.8388	0.84	0.85	0.86
EUR/JPY	138.51	144	147	150
GBP/USD	1.2877	1.30	1.29	1.29
USD/JPY	128.19	132	134	135
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:	Panetta (Mon); Lagarde (Wed); de Guindos (Thu)			
	BoE Speakers:				
	Fed Speakers:				
Mon 25th	GER:	09:00	Ifo (April)	90.8	89.1
	UK:	11:00	CBI Trends - Orders (April)	26	21
Tue 26th	JPN:	00:30	Jobs/Applicants Ratio (March)	1.21	1.22
	JPN:	00:30	Unemployment Rate (March)	2.7%	2.7%
	US:	13:30	Durable Goods (March)	-2.1%	+1.0%
			- Ex-Transport	-0.6%	+0.5%
	US:	14:00	Case-Shiller House Prices (February)	+1.8% (+19.1%)	
	US:	15:00	Conference Board Consumer Confidence (April)	107.2	106.0
	US:	15:00	New Home Sales (March)	+0.77m / -2.0%	+0.76m / -1.3%
Wed 27th	GER:	07:00	Gfk Consumer Sentiment (May)	-15.5	-16.3
	FRA:	07:45	Consumer Confidence (April)	91	91
	UK:	11:00	CBI Distributive Trades (April)	9	
	US:	15:00	Pending Home Sales (March)	-4.1%	-1.8%
Thu 28th	JPN:	00:50	Industrial Output (March)	+2.0% (+0.5%)	+0.5% (-0.6%)
	JPN:	00:50	Retail Sales (March)	(-0.8%)	(+0.4%)
	JPN:	02:00	BoJ Rate Decision	-0.10%	-0.10%
	SPA:	08:00	Flash HICP (April)	(+9.8%)	(+9.6%)
	ITA:	09:00	ISTAT Business Confidence (April)	110.3	109.0
	ITA:	09:00	Consumer Confidence (April)	100.8	100.6
	EU-19:	10:00	EC Economic Sentiment (April)	108.5	108.0
			-Industrial / Services / Consumer	10.4 / 14.4 / -16.9	9.5 / 13.9 / -16.9
	IRL:	11:00	New Dwelling Completions (Q1 2022)	Q1'21: 3,923	Q1: 5,250
	IRL:	11:00	Retail Sales (March)	+0.9% (+2.2%)	+1.0% (+2.7%)
	GER:	13:00	Flash HICP Inflation (April)	+2.5% (+7.6%)	+0.4% (+7.6%)
	US:	13:30	GDP (Q1: Advance Reading)	+6.9% s.a.a.r.	+1.0% s.a.a.r
	US:	13:30	PCE Prices (Q1: Advance Reading)	+6.4%	1.2%
			- Core-PCE Prices	+5.0%	+1.3%
	US:	13:30	Initial Jobless Claims (w/e 18th April)	+184,000	+186,000
Fri 29th	FRA:	06:30	GDP (Q1: Flash Estimate)	+0.7% (+5.4%)	+0.3%
	UK:	07:00	Nationwide House Prices (April)	+1.1% (+14.3%)	
	FRA:	07:45	Flash HICP (April)	+1.6% (+5.1%)	+0.3% (+5.1%)
	GER:	08:00	GDP (Q1:Flash Estimate)	-0.3% (+1.8%)	+0.2% (+3.8%)
	SPA:	08:00	GDP (Q1: Flash Estimate)	+2.2% (+5.5%)	+0.5% (+6.5%)
	ITA:	09:00	GDP (Q1: Flash Estimate)	+0.6% (+6.2%)	-0.3% (+5.7%)
	EU-19:	09:00	M3 Annual Money Growth (March)	+6.3%	+6.2%
	UK:	09:30	Mortgage Approvals (March)	+70,993	
	EU-19:	10:00	Flash HICP (April)	+2.4% (+7.4%)	+1.3% (+7.4%)
			- Ex-Food & Energy	+1.1% (+3.2%)	
	EU-19:	10:00	GDP (Q1: Flash Estimate)	+0.3% (+4.6%)	+0.3% (+5.1%)
	ITA:	10:00	Flash HICP (April)	+2.4% (+6.8%)	+1.0% (+7.0%)
	US:	13:30	Personal Consumption / Income	+0.2% / +0.5%	+0.6% / +0.4%
	US:	13:30	PCE Prices (March)	+0.6% (+6.4%)	
			- Core-PCE Prices	+0.4% (+5.5%)	+0.3% (+5.3%)
	US:	13:30	Employment Cost Index - Wages (Q1)	+1.0%	+1.1%
	US:	15:00	Final Uni. Michigan Consumer Sentiment (April)	65.7	65.7

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

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