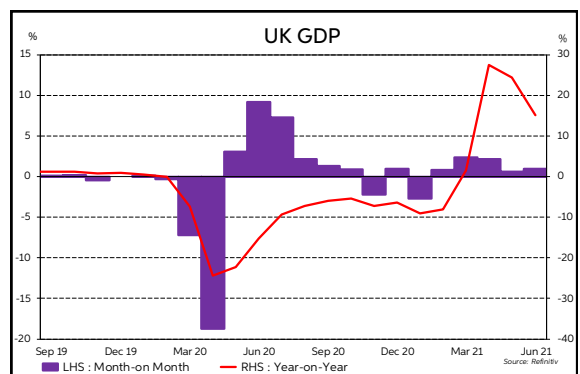


Paper Taper

- **Much of the market's focus over the summer has been on when the Fed will make an announcement about beginning to taper or scale back asset purchases under its QE programme.** We are certainly getting closer to an announcement, but it looks as if the ECB will beat the Fed to the draw at next week's Governing Council meeting. A number of ECB Board members have signalled over the past week that given the improvement in economic and financing conditions in the Eurozone, a reduction in the pace of asset purchases under the PEPP may be announced at the meeting. New economic projections are likely to see upgrades to the ECB's inflation and growth forecasts also.
- **The tapering is expected to take effect in the fourth quarter, but it should be modest.** The pace of PEPP purchases will possibly be scaled back from €80bn to €60bn per month, the same amount as in the first quarter of the year. At the press conference, President Lagarde will likely continue to strike a dovish tone, noting that the rowing back of purchases should be seen as a tweak to what is still very accommodative monetary policy. It can be expected that the ECB will emphasise that financing conditions remain very favourable, reflecting still large scale purchases under the PEPP as well as the APP, continuing substantial liquidity support measures, forward policy guidance and negative interest rates. Assuming the economic recovery proves sustained, a further reduction in PEPP purchases, possibly to €40bn per month, could be announced in December. The PEPP programme is due to conclude in March, although this may be offset somewhat by a modest increase in purchases under the APP, which has been in place since 2015.
- **The ECB is likely to be moving in sync with some other major central banks, as the BoE is due to conclude the latest batch of bond purchases under its QE programme around the end of the year, while the Fed is widely expected to start tapering over the winter.** As such, the near-term impact on currency markets should be limited, with the main forex pairs remaining within the well-defined trading ranges that have been in place for some time. The signals on tapering from the ECB have helped the euro recover some ground lost over the summer, but overall, currency movements have been quite limited in recent months. Similarly, Eurozone bond yields have moved upwards again in the past week, reversing some of the fall seen in the summer. However, there is no sign of the core bond markets moving out of their relatively narrow trading ranges of the past couple of years.
- **A key reason is that, even though the tapering of asset purchases may be about to begin, there is no sign that rate hikes will follow anytime soon, certainly in the Eurozone.** ECB rates are not expected to start to be raised until 2024, while in the US, Fed hikes are not seen until early 2023. In the last cycle, concerns around the tapering of asset purchases by the Fed gave rise to the so called 'taper tantrum' in 2013, when bond yields soared. This was due to fears that reduced Fed asset purchases could cause a collapse in the US bond market, as well as some concerns that rate hikes might also follow. Neither happened. Markets would appear to have learnt their lesson, while central banks have improved their forward policy guidance. Tapering can be easily absorbed by markets, which have an abundance of liquidity. The bigger question is when will rates start to rise and that still seems quite a long way off.
- **Data-wise in the Eurozone, the final reading of GDP is set to confirm the economy expand by 2% in Q2.** Elsewhere, the German ZEW is projected to fall to 30.0 in September, its lowest level since April 2020, as concerns regarding the Delta variant continue to weigh on sentiment. In terms of hard data, German industrial production is forecast to rise by 0.7% in July despite supply chain shortages, particularly in semiconductors, a key component for automobiles, which shows no sign of abating.
- **In the UK, the latest monthly reading of GDP will be the main highlight.** In June, GDP performed better than expected rising by 1% in the month. The consensus is for growth to ease to 0.5% in July, as Covid-19 cases continued to increase and the associated "pingdemic" saw over 1 million people self-isolate in the month. Meanwhile, industrial production is expected to rise by 0.4% in July, although this would still leave output circa 2.8% below its pre-pandemic level. Elsewhere, UK house prices data for August is due.
- **A shortened week in the US, curtailed by the Labour Day Bank Holiday on Monday, offers little in the way of new data next week.** However, there are a number of Fed Speakers out to keep the market occupied in the run-up to the September FOMC meeting.



	Interest Rate Forecasts			
	Current	End Q3 2021	End Q4 2021	End Q1 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	0.10	0.10
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 2021	End Q4 2021	End Q1 2022
EUR/USD	1.1879	1.17	1.16	1.16
EUR/GBP	0.8576	0.85	0.84	0.84
EUR/JPY	130.36	128	128	128
GBP/USD	1.3851	1.38	1.38	1.38
USD/JPY	109.72	109	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde, Panetta (Fri)		
	BoE Speakers:			
	Fed Speakers:	Williams, Kaplan (Wed); Evans, Williams, Kaskari, Daly, Rosengren, Bowman (Thu); Mester (Fri)		
Mon 6th	US:	Market Holiday (Labour Day)		
	GER: 07:00	Industrial Orders (July)	+4.1%	-1.0%
	EU-19: 09:30	Sentix Index (September)	22.2	19.7
Tue 7th	CHINA: 02:00	Trade Balance (August)	\$56.58bn	\$48.0bn
		- Exports	(+19.3%)	(+17.1%)
	UK: 00:01	BRC Retail Sales (August)	(+4.7%)	
	GER: 07:00	Industrial Output (July)	-1.3% (+5.1%)	+0.7% (+5.1%)
	UK: 07:00	Halifax House Prices (August)	+0.4% (+7.6%)	
	GER: 10:00	ZEW Economic Sentiment (September)	40.4	30.0
	EU-19: 10:00	GDP (Q2: Final Reading)	+2.0% (+13.6%)	+2.0% (+13.6%)
Wed 8th	JPN: 00:50	GDP (Q2: Final Reading)	+0.3% (+1.3%)	+0.4% (+1.6%)
	FRA: 07:45	Trade Balance (July)	-€5.8bn	
		- Exports	€41.6bn	
	US: 15:00	JOLTS Job Openings (July)	+10.073m	
	US: 20:00	Consumer Credit (July)	+\$37.7bn	+\$25.0bn
Thu 9th	UK: 00:01	RICS Housing Survey (August)	79	
	CHINA: 02:30	PPI (August)	(+9.0%)	(+9.0%)
	CHINA: 02:30	CPI (August)	+0.3% (+1.0%)	+0.5% (+1.0%)
	GER: 07:00	Trade Balance (July)	+€13.6bn	+€13.1bn
		- Exports	+1.3%	+0.8%
	IRL: 11:00	CPI (August)	+0.4% (+2.2%)	+0.6% (+2.9%)
	EU-19: 12:45	ECB Refi Rate (September)	+0.00%	+0.00%
		- Deposit Rate	-0.50%	-0.50%
	EU-19: 13:30	Press Conference		
	US: 13:30	Initial Jobless Claims (w/e 30th August)	+340,000	
Fri 10th	GER: 07:00	Final HICP (August)	+0.1% (+3.4%)	+0.1% (+3.4%)
	UK: 07:00	GDP (July)	+1.0% (+15.2%)	+0.5% (+8.0%)
	UK: 07:00	Industrial Output (July)	-0.7% (+8.3%)	+0.4% (+3.0%)
		- Manufacturing	+0.2% (+13.9%)	+0.1% (+6.0%)
	UK: 07:00	Goods Trade Balance (July)	-£12.0bn	-£10.8bn
		- Non-EU	-£7.1bn	
	FRA: 07:45	Industrial Output (July)	+0.5%	+0.4%
	ITA: 09:00	Industrial Output (July)	+1.0% (+13.9%)	+0.1% (+5.3%)
	US: 13:30	PPI Final Demand (August)	+1.0% (+7.8%)	+0.6% (+8.3%)
		- Ex-Food & Energy	+1.0% (+6.2%)	+0.6% (+6.9%)

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