

Gradual tightening of monetary policy

From a monetary policy perspective, 2018 showed further modest progress on the path of gradual tightening. The Fed hiked 4 times, bringing the target range for the Fed funds up to 2.25%-2.50% by year end. We also got a rate hike from the BoE, with the Bank Rate being raised by 25bps to 0.75%. Meanwhile, the ECB ended new net asset purchases under its QE programme in December.

Looking ahead to 2019, the Fed's latest projections shows that it envisages two further rate hikes in 2019. However, despite US data remaining strong, futures contracts are not even pricing in one hike next year. The market remains sceptical that the Fed will be able to match its own guidance in light of more volatile trading conditions and a softening in global growth. However, the market greatly underestimated the extent of Fed tightening in 2018. If US activity remains solid and global growth stabilises, the market may have to adjust its rate expectations upwards.

In the UK, the policy outlook for the BoE will be very much determined by Brexit. In this context, the options facing the MPC look binary. In the event of a soft or even a delayed Brexit, the BoE could hike rates, possibly as soon as May. However, if a no-deal hard Brexit materialises, then rates could be cut to help the economy cope with the negative economic impact.

Meanwhile, the ECB has emphasised that rates are likely to remain unchanged until at least the end of next summer. Therefore, the earliest a rate hike is likely to happen is September 2019. However, given that the ECB downgraded its economic outlook at its December meeting, the first rate move could get pushed out even further. Market pricing indicates that rates may rise by around 10bps at end-2019.

John Fahey, Senior Economist, AIB

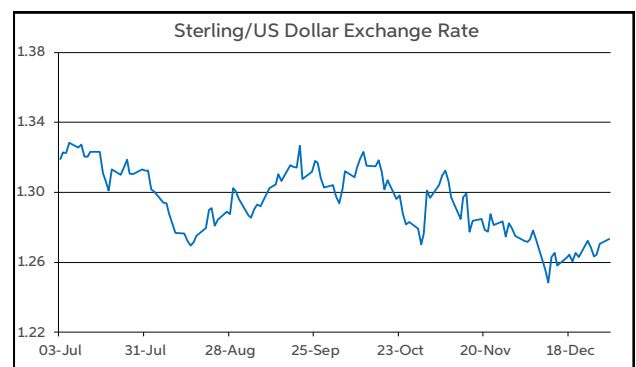
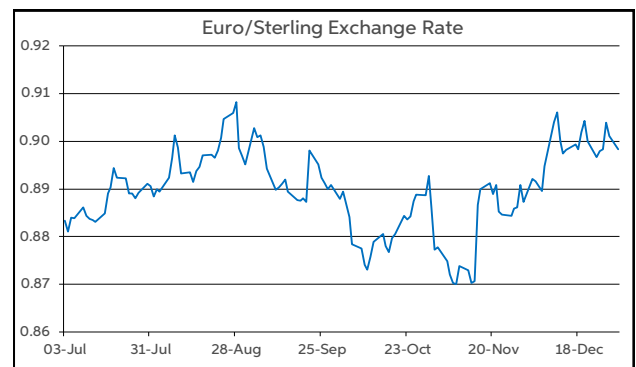
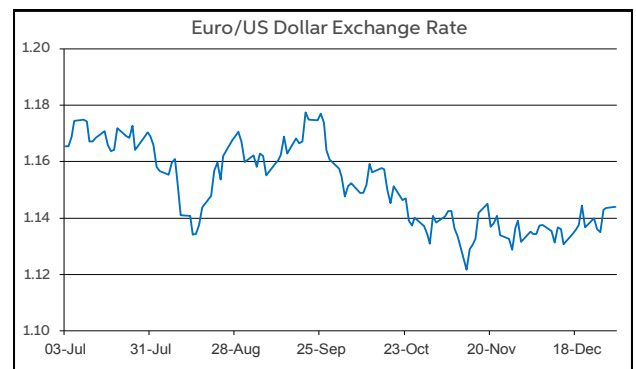
Opening Interest Rates						
	Base Rate	Short Term			Long Term	
		1-Mth	3-Mth	12-Mth	2-Yr	5-Yr
USD	2.375	2.52	2.80	3.01	2.67	2.60
EUR	0.00	-0.36	-0.31	-0.12	-0.16	0.23
GBP	0.75	0.73	0.91	1.17	1.16	1.31

Equity Indices				
	Latest Close	% Changes		
		on Day	End 2017 to Date	
Dow Jones	23062.4	-0.33	-6.70	
S&P 500	2485.74	-0.12	-7.03	
FTSE 100	6733.97	+2.27	-12.41	
DJ Stoxx 50	2986.53	+1.67	-14.77	
ISEQ	5459.2	+2.50	-22.44	
Nikkei	20014.77	+0.00	-12.08	

Today's Opening Rates			
		% Change	
		Day *	End 2017
EUR/USD	1.1441	-0.10	-4.63
EUR/GBP	0.8982	-0.67	1.11
GBP/USD	1.2736	0.58	-5.74
GBP/EUR	1.1131	0.68	-1.10
USD/JPY	110.05	-0.53	-2.33
EUR/JPY	125.95	-0.65	-6.83

* v Previous Day's European Open

See Next Page for More Rates ▶▶▶



All rates quoted are indicative market rates

See Next Page For More Rates & Charts

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Opening Levels

Monday 31 December 2018
08:24 am



Euro

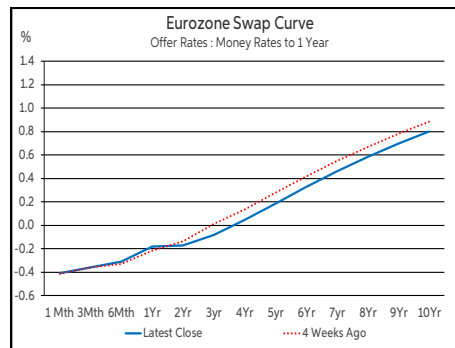
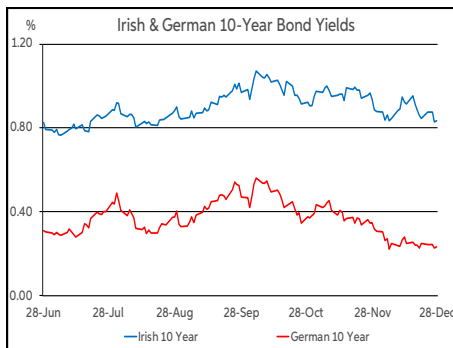
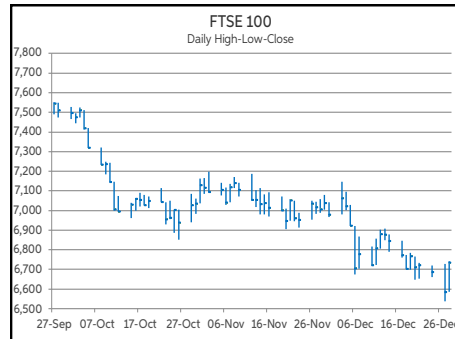
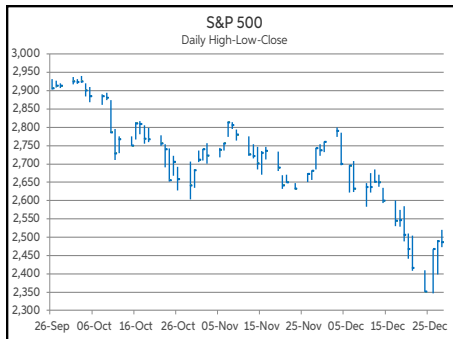
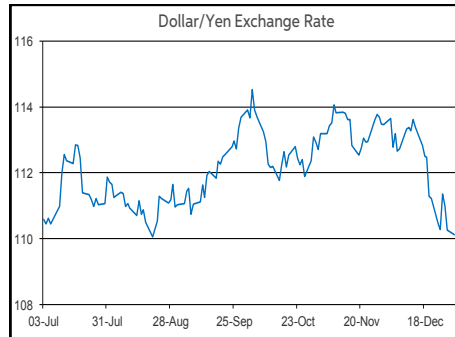
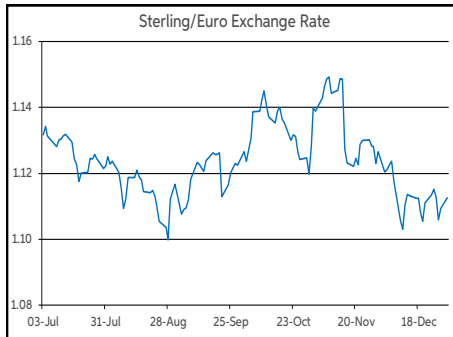
EUR/GBP	0.8982
EUR/USD	1.1441
EUR/JPY	125.95
EUR/SEK	10.2447
EUR/DKK	7.4663
EUR/NOK	9.9393
EUR/CHF	1.1261
EUR/AUD	1.6192
EUR/HKD	8.9602
EUR/CAD	1.5579

Sterling

GBP/EUR	1.1131
GBP/USD	1.2736
GBP/CAD	1.734
GBP/NZD	1.8951
GBP/JPY	140.16
GBP/SEK	11.4016
GBP/DKK	8.3086
GBP/NOK	11.0596
GBP/CHF	1.2535
GBP/AUD	1.8022

Dollar

USD/JPY	110.05
USD/CAD	1.3618
USD/CHF	0.9842
USD/CNY	6.8755
USD/BRL	3.8804
USD/RUB	69.605
USD/INR	69.767
AUD/USD	0.7065
NZD/USD	0.6718



Debt Markets				
	Close	Change bps		
		Day	4 Weeks	End 17
10 Year Yield %				
US	2.71	-6	-28	+31
Germany	0.23	+1	-7	-19
UK	1.27	-3	-9	+9
Ireland	0.84	+1	-4	N/A
Belgium	0.75	-0	+0	+14
France	0.70	+2	+3	-7
Italy	2.70	-2	-51	+71
Spain	1.41	+4	-7	-13
Portugal	1.71	+5	-10	-19
Greece	4.30	-3	+8	+26
5 Year Swap %				
US	2.56	-10	-40	+32
Eurozone	0.18	-6	-9	-13
UK	1.29	-4	-8	+25
2 Year Swap %				
US	2.64	-6	-34	+55
Eurozone	-0.19	-4	-5	-5
UK	1.14	-2	-4	+34
10 Year Government Bond Spreads to Benchmark bps				
Ireland	60	-0	+3	N/A
Belgium	52	-1	+8	+33
France	47	+1	+10	+11
Italy	247	-3	-44	+89
Spain	118	+4	+0	+6
Portugal	148	+4	-3	+0
Greece	407	-3	+15	+45

Commodities				
	Close	% Change		
		Day	4 Weeks	End 17
Brent Oil	52.2	+0.08	-11.09	-21.94
West Texas Oil	45.15	+1.51	-11.09	-25.32
CRB - All Commodity	170.97	+0.28	-5.93	-11.81
CRB - Food	322.11	-2.97	-3.33	-4.15
Gold \$	1280.8	+0.43	+4.81	-1.67

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