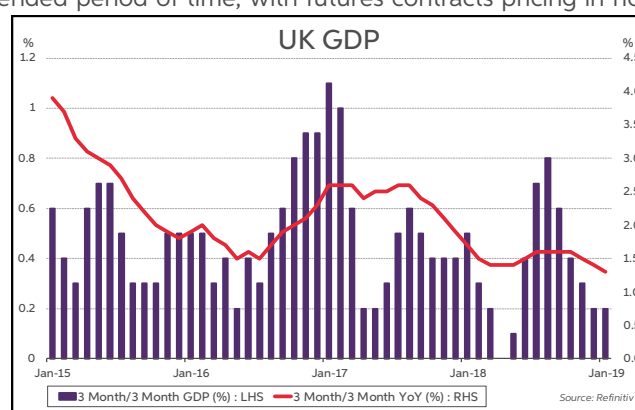


## Some Rays of Sunshine

- Bond markets gave back some of their recent gains in the past week as data hinted that all is not lost for the global economy.** True, the manufacturing sector is still mired in the mud, but other parts of the world economy look to be in reasonable shape. The J.P. Morgan Global Manufacturing PMI remained stuck at 50.6 in March, with a particularly weak reading of 47.5 in the Eurozone. Crucially though, the Chinese index rose above the 50 level into expansion territory. Meanwhile, the Global Services PMI rose for the second month in a row in March to a relatively strong 53.7, despite a very poor reading in the UK. The German index hit a sixth month high. Meanwhile, the German Ifo index for the services sector was also very strong in March.
- Some recent real economic data have also been encouraging.** Weekly jobless claims have hit a fifty year low in the US. Non-farm payrolls rebounded in March, rising by 196k to give a strong monthly average of 180k in Q1. Although manufacturing output continued to fall in Germany in February, industrial production rose by 0.7%, thanks to strong growth in construction output. Meanwhile, retail sales in both the Eurozone and the UK rose by 0.4% in February, after a 0.9% increase in January. UK labour market data have also improved in the latest 3-month period, with employment growth accelerating to 1.5% yoy.
- Clearly concerns remain about the growth prospects for the world economy, which has lost considerable momentum since last summer and with risks still seen as tilted to the downside.** We have witnessed previous periods of weakness in this cycle, most notably in 2016, which sparked strong rallies in bond markets that eventually were reversed. We don't think we are on the verge of run up in bond yields just yet, but the rally of the last six months looks to be running out of steam. **We would expect ten year Treasury yields to trade around 2.5% and bund yields to remain close to 0% as markets await clarity on the direction of the global economy.**
- Turning to the week ahead, Brexit newsflow will continue to dominate.** PM Theresa May has again formally requested an extension to the Article 50 negotiating period until June 30th. It has been suggested that the EU may instead offer a one year flexible extension that would allow the UK to leave during this period should the Withdrawal Agreement be passed by Parliament. **Ultimately, the decision on the nature of any extension will be decided at the special EU Leaders' Summit on Wednesday. In the unlikely scenario that an extension is not offered, the UK will leave the EU without a deal this Friday (12th April).** Meantime, talks between PM May and Labour leader Jeremy Corbyn have so far failed to produce a cross-party consensus on a way forward. If a unified approach cannot be agreed upon, the government has indicated it will hold a new round of indicative votes early in the coming week. Although, judging by the previous rounds of such votes, it is by no means certain that a parliamentary consensus will emerge.
- In the Eurozone, the key focus for markets will be the ECB's April Governing Council meeting.** No changes to rates are expected, with the central bank guiding back in March that they are on hold "at least through the end of 2019". Since then, ECB speakers have turned even more dovish, with some making references to the possible introduction of a multi-tier deposit facility, as well as potentially extending out its forward guidance even further. At this week's meeting, markets will look to gauge the level of support within the Governing Council for such prospective changes to policy. The market is certainly of the view that rates will remain unchanged for an extended period of time, with futures contracts pricing in no rate hikes until end 2020. However, the central bank is unlikely to change its guidance this week.
- Meanwhile, the data calendar is very quiet on this side of the Atlantic.** Indeed, the only notable data due for release in the Eurozone are February industrial production figures, with output projected to have fallen back by 0.6%, having risen by 1.4% in January. **In the UK, the highlight is the estimate of GDP growth for the 3-months to February.** The consensus is that growth in the period will have held at 0.2%. Meantime, industrial output is anticipated to have been broadly flat on the month.
- Elsewhere, the US schedule includes the March reading of CPI.** Headline inflation is expected to have picked up to 1.8%, from 1.5%, with the core CPI unchanged at 2.1%. Meanwhile, the Michigan measure of consumer confidence, is forecast to have dipped slightly in April, while remaining elevated. **In terms of monetary policy updates, the release of the Fed's minutes from its March meeting will also warrant some attention.** The FOMC adopted a notably dovish tone at the meeting, indicating that it is now in pause mode. Markets will be looking for further details on this.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2019			
Fed Funds	2.375	2.375	2.375	2.625
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	0.75	0.75	1.00
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
	2019			
EUR/USD	1.1224	1.14	1.15	1.17
EUR/GBP	0.8619	0.85	0.85	0.86
EUR/JPY	125.37	127	127	128
GBP/USD	1.3023	1.34	1.35	1.36
USD/JPY	111.69	111	110	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Villeroy de Galhau (Monday); Coeure (Wednesday); Coeure, <b>Draghi</b> (Thursday); Coeure, <b>Draghi</b> , Praet (Friday)		
	<b>Fed Speakers:</b>	Clarida (Tuesday); Bullard, Clarida, Williams (Thursday)		
	<b>EU-27:</b>	Special EU Leaders' Summit (Wednesday)		
<b>Mon 8th</b>	<b>JPN:</b>	06.00	Economy Watchers' Poll (March)	47.5
	<b>GER:</b>	07.00	Trade Balance (February)	€18.5bn
			- Exports	+0.0%
	<b>EU-19:</b>	09.30	Sentix Index (April)	-2.2
	<b>US:</b>	15.00	Factory Orders (February)	+0.1%
				-0.6%
<b>Tue 9th</b>	<b>ITA:</b>	09.00	Retail Sales (February)	+0.5%
	<b>US:</b>	11.00	NFIB Business Optimism (March)	101.7
	<b>JPN:</b>	23.50	Domestic Wholesale Prices (March)	(+0.8%)
	<b>JPN:</b>	23.50	Core Machinery Orders (February)	(-2.9%)
				(+1.1%)
				(-5.2%)
<b>Wed 10th</b>	<b>UK:</b>	00.01	BRC Retail Sales (March)	-0.1%
	<b>FRA:</b>	07.45	Industrial Output (February)	+1.3%
	<b>ITA:</b>	09.00	Industrial Output (February)	+1.7%
	<b>UK:</b>	09.30	GDP (3 months to February)	+0.2% (+1.4%)
	<b>UK:</b>	09.30	Industrial Output (February)	+0.6% (-0.9%)
			- Manufacturing	+0.8% (-1.1%)
	<b>UK:</b>	09.30	Goods Trade Balance (February)	-£13.1bn
			- Non-EU	-£5.0bn
	<b>EU-19:</b>	12.45	ECB Refi Rate Announcement	0.00%
			- Deposit Rate	-0.40%
	<b>EU-19:</b>	13.30	ECB Press Conference	
	<b>US:</b>	13.30	CPI (March)	+1.5%
			- Core (Ex-Food & Energy)	+2.1%
	<b>US:</b>	19.00	Federal Budget (March)	March'18: -\$209bn
	<b>US:</b>	19.00	Minutes from the Fed's 19th-20th March Meeting Published	
<b>Thurs 11th</b>	<b>UK:</b>	00.01	RICS House Price Survey (March)	-28
	<b>GER:</b>	07.00	Final HICP (March)	(+1.4%)
	<b>FRA:</b>	07.45	Final HICP (March)	(+1.3%)
	<b>IRL:</b>	<b>11.00</b>	<b>CPI (March)</b>	<b>+0.8% (+0.6%)</b>
	<b>IRL:</b>	<b>11.00</b>	<b>Residential Property Prices (February)</b>	<b>-0.4% (+5.6%)</b>
	<b>US:</b>	13.30	Initial Jobless Claims (w/e 1st April)	202,000
	<b>US:</b>	13.30	PPI (March)	(+1.9%)
				(+1.9%)
<b>Fri 12th</b>	<b>EU-19:</b>	10.00	Industrial Output (February)	+1.4% (-1.1%)
	<b>US:</b>	13.30	Import / Export Prices (March)	+0.6% / +0.6%
	<b>US:</b>	15.00	Prelim' Michigan Consumer Sentiment (April)	98.4
				98.0

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

All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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