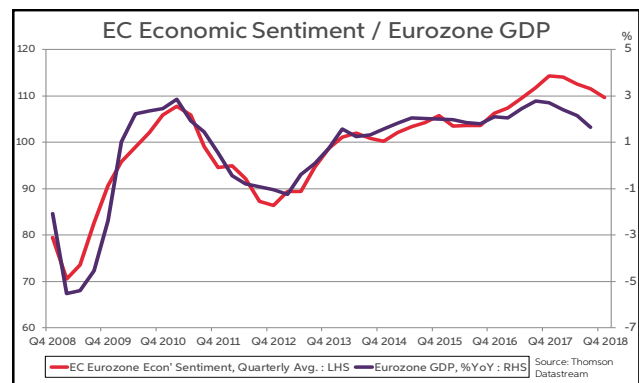


No New Year Cheer in Markets

- The New Year has brought little cheer for markets, with concerns continuing to mount about the prospects for the global economy in 2019.** Leading indicators continue to point to slowing economic activity, with declines in manufacturing PMIs in China, the US and the Eurozone during December weighing on investor sentiment. A revenue downgrade from Apple in relation to Q4 sales added to the gloom. Stock markets remain weak and volatile, with bond yields falling further and the yen rising strongly in risk-off markets.
- Markets have moved a long way in the past three months.** Many stock markets are down by around 15%. Ten year bund yields have fallen by 40bps to below 0.2%, a two year low. Ten year Treasury yields have declined by 65bps to 2.6%, with 10 year gilts falling by 50bps to 1.25%. Credit spreads have widened considerably. **Perhaps the most remarkable move has been in relation to market expectations on US interest rates.** Three months ago, futures contracts were pricing in two rate hikes in the US for 2019. Now, they see the Fed staying on hold this year, with a rate cut priced in for H1 2020.
- While there is no doubt that global activity has slowed, the market's pessimism may be overdone.** The US economy retains considerable momentum as evidenced by strong labour market and retail sales data in recent months. Sharp falls in oil prices will provide a boost to household spending power. **A resolution to the US-China trade war in the coming months and a pause in Fed tightening would be a fillip for business confidence.** Markets will be watching developments here closely. So a tricky period lies ahead as markets try and gauge whether we are looking at a modest slowing in global growth or the start of a sharp downturn in activity. We are inclined to think that it is the former given the accommodative stance of monetary and fiscal policy.
- Turning to the week ahead, the release of the meeting minutes from December's FOMC meeting on Wednesday will be a key focus of investor attention.** While the Fed raised rates at the meeting by 25bps, of greater importance was the lowering of the committee's interest rate projections. The central bank is now guiding that rates will be increased by 25bps twice in 2019 as opposed to the three times they had guided previously. However, as mentioned above, futures contracts indicate that the market is sceptical that the Fed will deliver any rate hikes this year. Therefore, the minutes will be looked to for any additional insight into the debate on policy tightening, as well for more details on the discussion that took place on the economic outlook.
- Data-wise, the main release in a quiet US calendar this week is the December reading of CPI.** Falling oil prices are expected to result in headline inflation moderating to 1.9%, from 2.2%. In contrast, the core rate is anticipated to have held at 2.2%. The December printing of the non-manufacturing ISM is also due, with a dip in the index forecast.
- In the Eurozone, the EC sentiment indices are the highlight of what is a very busy calendar.** Following on from last month's disappointing PMI data, it is envisaged that the headline economic sentiment index fell back in December. In terms of labour market updates, the release of November unemployment data is expected to show that the jobless rate held at 8.1% in the month. Meantime, Eurozone retail sales are expected to have been broadly flat in November. On a national level, German and French industrial production figures for November are also due. Output growth is forecast to have been stagnant in France, while a 0.3% increase is pencilled in for Germany. We also get the ECB account of the December policy meeting. Investors will look to the minutes for a better understanding of what the recent downgrade in the staff economic projections means for the future path for interest rates.
- Turning to the UK, there is a busy end to the week with a number of key releases out on Friday, including the estimate of GDP for the three months to November.** The consensus forecast is for growth to have slowed to 0.3% in the period. The calendar also includes industrial production figures for November, with output anticipated to have increased marginally. Meanwhile, the goods trade deficit looks to have narrowed slightly in the month. Parliament also returns from its Christmas recess this week, meaning Brexit will come back into focus.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2019	2019	2019	2019
Fed Funds	2.375	2.375	2.625	2.625
ECB Deposit	-0.40	-0.40	-0.40	-0.25
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 Q1	End Q2	End Q3
	2019	2019	2019	2019
EUR/USD	1.1348	1.15	1.16	1.18
EUR/GBP	0.8989	0.88	0.87	0.86
EUR/JPY	123.14	125	126	129
GBP/USD	1.2622	1.31	1.33	1.37
USD/JPY	108.51	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Carney (Wednesday)		
	ECB Speakers:	de Guindos (Monday) Villeroy de Galhau (Thursday); Makuch, Mersch, Nowotny (Friday)		
	Fed Speakers:	Bostic (Monday); Bostic, Evans, Rosengreen (Wednesday); Bullard, Evans, Powell (Thursday)		
Mon 7th	GER:	07.00 Industrial Orders (November)	+0.3%	-0.4%
	GER:	07.00 Retail Sales (November)	-0.3%	+0.3%
	EU-19:	09.30 Sentix Index (January)	-0.3	-2.8
	EU-19:	10.00 Retail Sales (November)	+0.3%	+0.1%
	US:	15.00 Factory Orders (November)	-2.1%	+0.3%
	US:	15.00 Non-Manufacturing ISM (December)	60.7	59.1
		- Business Activity	65.2	64.8
Tue 8th	GER:	07.00 Industrial Output (November)	-0.5%	+0.3%
	FRA:	07.45 Trade Balance (November)	-€4.1bn	
		- Exports	+6.9%	
	UK:	08.30 Halifax House Prices (December)	(+0.3%)	(+0.4%)
	EU-19:	10.00 EC Business Climate (December)	1.09	0.99
	EU-19:	10.00 EC Economic Sentiment (December)	109.5	108.4
		- Industrial / Services / Consumer	3.4 / 13.3 / -6.2	3.0 / 12.2 / -6.2
	US:	11.00 NFIB Business Optimism (December)	104.8	
	IRL:	11.00 Retail Sales (November)	+0.0% (+5.8%)	+2.0% (+6.0%)
	IRL:	11.00 Unemployment (December)	5.3%	5.2%
	US:	13.30 International Trade Balance (November)	-\$55.5bn	-\$53.4bn
	US:	20.00 Consumer Credit (November)	\$25.38bn	\$18.00bn
Wed 9th	GER:	07.00 Trade Balance (November)	€17.3bn	€18.0bn
		- Exports	+0.7%	-0.5%
	FRA:	07.45 Consumer Confidence (December)	92	90
	ITA:	09.00 Unemployment (November)	10.6%	
	EU-19:	10.00 Unemployment (November)	8.1%	8.1%
	CAN:	15.00 Interest Rate Announcement	1.75%	
	US:	19.00 Minutes from Fed's 18th-19th December Meeting Published		
Thurs 10th	UK:	00.01 BRC Retail Sales (December)	-0.5%	
	UK:	00.01 RICS House Price Survey (December)	-11	
	JPN:	05.00 Leading Indicators Index (November)	0.0	
	FRA:	07.45 Industrial Output (November)	+1.2%	+0.0%
	ITA:	09.00 Retail Sales (November)	+0.1%	
	IRL:	11.00 Live Register (December)	-3,100/207,200	-2,200/205,000
	EU-19:	13.30 ECB Account from 12th-13th December Meeting Published		
	US:	13.30 Initial Jobless Claims (w/e 31st December)	231,000	225,000
Fri 11th	JPN:	05.00 Economy Watchers' Poll (December)	51.0	
	ITA:	09.00 Industrial Output (November)	+0.1%	-0.3%
	UK:	09.30 GDP (3 months to November)	+0.4% (+1.5%)	+0.3% (+1.3%)
	UK:	09.30 Industrial Output (November)	-0.6% (-0.8%)	+0.2% (-0.7%)
		- Manufacturing	-0.9% (-1.0%)	+0.3% (-0.7%)
	UK:	09.30 Goods Trade Balance (November)	-£11.87bn	-£11.40bn
		- Non-EU	-£4.25bn	-£3.78bn
	US:	13.30 CPI (December)	(+2.2%)	(+1.9%)
		- Core (Ex-Food & Energy)	(+2.2%)	(+2.2%)
	US:	19.00 Federal Budget (December)	Dec'17: -\$23.0bn	

◆ 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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