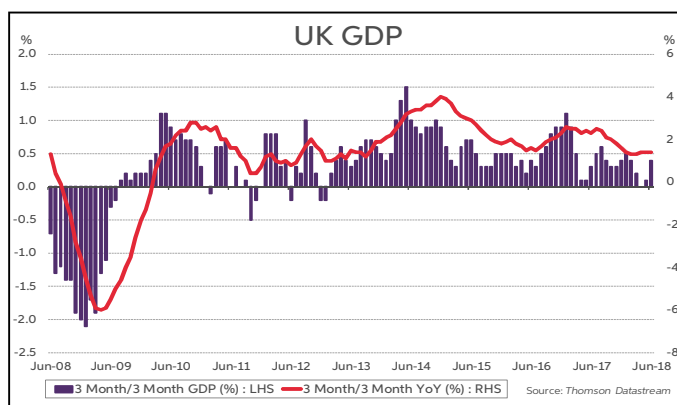


## This Time It's Different! Really?

- **The US Treasury market finally crumbled this week under a wave of super-strong economic data and upbeat comments from Fed Chair Powell on the outlook for the economy.** Ten year yields soared through the 3.10% resistance barrier to their highest level since 2011, while yields in the two to five year part of the curve reached ten year highs. We have been warning for some time that the US bond market was vulnerable, given the strength of the economy and as the market had not built in sufficient Fed tightening.
- Business activity and consumer confidence surveys are at multi-decade highs in the US, with labour market data extremely strong, while US stock markets hit all-time highs recently. **Thus, the near-term outlook for the economy looks very positive and this expansion seems set to become the longest on record next June.** Nevertheless, it was somewhat surprising to hear Fed Chair Powell say that there's no reason to think that this cycle cannot continue "effectively indefinitely". This is really offering a hostage to fortune, as one has to wonder how the US economy will shape up after the fiscal stimulus fades and much higher rates eventually impact economic activity, most likely in 2020.
- Nearer term, though, there may be more pain for the bond market. The Fed Chair warned that we are a "long way" from neutral interest rates and that the Fed "might move a little quicker" than currently expected in hiking rates. Markets have had to revise upwards their trajectory for US rates a number of times this year, but they are still well below the Fed's projections. **Continuing strong data would prompt further upward revisions to the market's rate trajectory, keeping the pressure on bond markets.**
- **In the week ahead, attention in the US will be focussed on the release of CPI inflation figures for September.** The headline rate fell back to 2.7% in August, having risen for six of the previous seven months. The market consensus is that this measure continued its downward trend in September, slowing to 2.4%. This is mainly due to base effects, as a large rise in fuel costs last September drops out of the annual rate. Meanwhile, the core rate (excludes energy and food prices) is forecast to have picked up to 2.3%, from 2.2% in August. A preliminary reading of the Michigan Consumer Sentiment index for October is also expected, with sentiment forecast to have increased slightly, from an already high level.
- **Elsewhere, there is a busy UK release calendar, the highlight of which is the publication of the ONS estimate of GDP for the 3 months to August.** Leading indicators, such as the UK PMIs, point towards a continued solid pace of growth. Indeed, the consensus forecast is for strong growth in GDP of 0.6% in the period, unchanged on the rate recorded in the 3 months to July.
- **Meantime, UK industrial production figures for August are also due out.** It is anticipated that output will record a second consecutive monthly increase of 0.1%, pushing the year-on-year growth rate up to 1.0%. Finally, the goods trade deficit, which has declined for three consecutive months due to increased exports, looks set to have widened again in August.
- **In the Eurozone, industrial production statistics for August are the main release in a very sparse macro-data calendar.** Output is anticipated to have risen by 0.3%, the first increase in three months. However, the year-on-year growth rate is expected to have remained in negative territory, falling to a five-year low of -0.5%. **Lastly, in Ireland the Minister of Finance will deliver the 2019 Budget speech at 1pm on Tuesday.** It is expected that limited tax cuts and a moderate increase in government expenditure will result in an essentially balanced budget.



	Interest Rate Forecasts			
	Current	End Q4 2018	End Q1 2019	End Q2 2019
Fed Funds	1.875	2.375	2.625	2.875
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 Q4 2018	End Q1 2019	End Q2 2019
EUR/USD	1.1522	1.19	1.20	1.21
EUR/GBP	0.8812	0.89	0.88	0.87
EUR/JPY	131.11	133	133	133
GBP/USD	1.3074	1.34	1.36	1.39
USD/JPY	113.77	112	111	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>BoE Speakers:</b>	Vlieghe (Thursday)		
	<b>ECB Speakers:</b>	Nowotny (Monday); Mersch (Tuesday); Mersch (Wednesday); Coeure, <b>Draghi</b> (Thursday); Coeure, <b>Draghi</b> , Lautenschlager (Friday)		
	<b>Fed Speakers:</b>	Bullard (Monday); Evans (Tuesday); Bostic, Evans, Williams (Wednesday); Bostic, Evans (Friday)		
<b>Mon 8th</b>	<b>US:</b>	Columbus Day (Partial Market Holiday)		
	<b>CHINA:</b> 02.45	Caixan Services PMI (September)	51.5	
	<b>GER:</b> 07.00	Industrial Output (August)	-1.1%	+0.4%
	<b>EU-19:</b> 09.30	Sentix Index (October)	12	11.8
<b>Tue 9th</b>	<b>UK:</b> 00.01	BRC Retail Sales (September)	(+0.2%)	
	<b>JPN:</b> 06.00	Economy Watchers' Poll (September)	48.7	
	<b>GER:</b> 07.00	Trade Balance (August)	€15.80bn	
		- Exports	-0.9%	+0.3%
	<b>US:</b> 11.00	NFIB Business Optimism (September)	108.8	
	<b>IRL:</b> <b>11.00</b>	<b>Residential Property Prices (August)</b>	<b>+1.0% (+10.4%)</b>	<b>+0.8% (+9.6%)</b>
	<b>IRL:</b> <b>13.00</b>	<b>Budget 2019: General Government Balance</b>	<b>-€800m</b>	<b>-€350m</b>
<b>Wed 10th</b>	<b>JPN:</b> 00.50	Core Machinery Orders (August)	(+13.9%)	(+1.6%)
	<b>FRA:</b> 07.45	Industrial Output (August)	+0.7%	+0.4%
	<b>ITA:</b> 09.00	Industrial Output (August)	-1.8%	+0.6%
	<b>UK:</b> 09.30	GDP (3 Months to August)	+0.6% (+1.6%)	+0.6% (+1.5%)
	<b>UK:</b> 09.30	Industrial Output (August)	+0.1% (+0.9%)	+0.1% (+1.0%)
		- Manufacturing	-0.2% (+1.1%)	+0.1% (+1.1%)
	<b>UK:</b> 09.30	Goods Trade Balance (August)	-£9.97bn	-£10.90bn
		- Non-EU	-£2.8bn	-£3.10bn
	<b>US:</b> 13.30	PPI (September)	(+2.8%)	(+2.8%)
<b>Thurs 11th</b>	<b>JPN:</b> 00.50	Domestic Wholesale Prices (September)	(+3.0%)	(+2.9%)
	<b>FRA:</b> 07.45	Final HICP (September)	(+2.5%) (p)	(+2.5%)
	<b>IRL:</b> <b>11.00</b>	<b>CPI (September)</b>	<b>+0.3% (+0.7%)</b>	<b>-0.3% (+0.9%)</b>
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 5th October)	207,000	210,000
	<b>US:</b> 13.30	CPI (September)	(+2.7%)	(+2.4%)
		- Core (Ex-Food & Energy)	(+2.2%)	(+2.3%)
	<b>US:</b> 19.00	Federal Budget (September)	Sep' 17: \$8bn	
<b>Fri 12th</b>	<b>UK:</b> 00.01	RICS House Price Survey (September)	2	2
	<b>GER:</b> 07.00	Final HICP (September)	(+2.2%)	(+2.2%)
	<b>EU-19:</b> 10.00	Industrial Production (August)	-0.8% (-0.1%)	+0.3% (-0.5%)
	<b>IRL:</b> <b>11.00</b>	<b>Goods Trade Balance (August)</b>	<b>€4.0bn</b>	<b>€4.0bn</b>
	<b>US:</b> 13.30	Import / Export Prices (September)	-0.6% / -0.1%	+0.1% / +0.2%
	<b>US:</b> 13.30	Prelim' Michigan Consumer Sent' (October)	100.1	100.4

◆ 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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