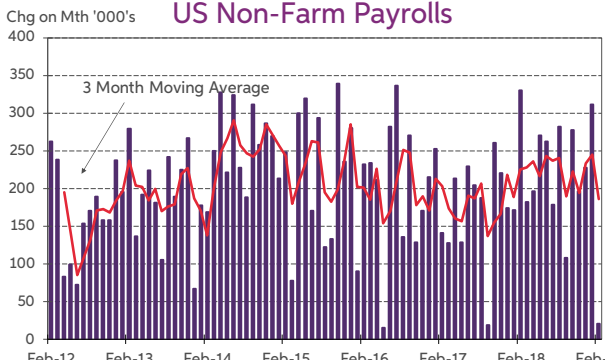


Who Let the Dogs Out?

- Bond yields have tumbled globally this month in the latest leg to the rally that commenced last autumn.** It has been a feeding frenzy in fixed income markets recently as investors act like a chasing pack, hunting down yield and duration everywhere. The decline in yields has been spectacular. Ten year Treasury yields fell to 2.35% from 2.75% at the start of the month and are almost 90bps below last autumn's peak. Even more dramatically, ten year bund yields have turned negative, falling close to -0.1%, from 0.2% at the beginning of March and near 0.6% in the autumn. Similarly, ten year gilt yields have fallen by over 30bps to below 1% this month. They were above 1.7% last October. **Meanwhile, the US curve has inverted, with ten year Treasury yields dropping below T-bill rates.**
- The gains in bond markets this month have been driven by the unexpectedly dovish soundings coming from central banks rather than a further weakening of economic activity.** Data have remained soft but point to continuing moderate growth, not a recession. Furthermore, much of the weakness is concentrated in the manufacturing sector. Central banks, though, are making it clear that they will not risk economies falling back in to recession and are almost offering markets a blank cheque. The Fed had been predicting that rates will rise by a further 75bps. Now it says that rates could move in either direction. Indeed, markets think that rates could be cut by 50bps. The Fed is also signalling that it will end the rundown of the assets on its balance sheet earlier than expected. The ECB has pushed rate hikes into next year at the earliest, clearly signalling rates will remain lower for longer, while also announcing new liquidity measures.
- It may be central banks recognise that they have little ammunition to fight any major global downturn, so they are acting pre-emptively through very dovish forward rate guidance to ensure a recession does not occur.** And it is working. There has been a marked loosening of monetary and financial conditions, as evidenced by the sharp drop in rates along the curve and the rebound in stock markets in the first quarter, which have risen by circa 10% year-to-date. Meanwhile, good progress is seemingly being made in the US-China trade talks. These developments could lay the ground for a renewed pick-up in growth in the second half of the year, which would test the rally in bond markets.
- Turning to the week ahead, the main highlight is the release of the US employment report for March.** Employment growth significantly undershot expectations in February, rising by just 20k. However, this reading may have been distorted by the partial federal shutdown earlier in the year. This week's report is projected to show that payrolls expanded by a solid 170k. Meanwhile, the unemployment rate is anticipated to have held at just 3.8%. Overall, tighter labour market conditions are expected to have resulted in the year-on-year growth rate of average earnings remaining at 3.4%.



US Non-Farm Payrolls

Chg on Mth '000's

3 Month Moving Average

Source: Thomson Datastream
- In terms of other US data due out, the retail sales report for February will also attract some attention.** Despite the significant improvement in consumer confidence in the month, only a modest increase in sales is expected. Meanwhile, we also get an update on the output side of the economy in the form of the March ISMs. It is envisaged that the indices, which have overstated growth recently, will show that manufacturing remains on a softer footing, while the service sector continues to perform strongly.
- Elsewhere, there is a light data calendar in the UK this week.** The key releases are the March PMIs, which are expected to indicate that against a backdrop of ongoing Brexit uncertainty, growth remains sluggish. **However, sterling watcher's attention will likely remain focussed on events in the House of Commons this week.** On Monday, a second round of indicative votes are due to be held, although as with the first, MPs may not coalesce around a single alternative to the WA. Although, this process has taken on a renewed sense of importance, given that MPs rejected the Withdrawal Agreement for a third time on Friday. The EU has indicated that they will only grant a long extension to the Article 50 negotiating period if the UK partakes in the upcoming European elections and offers a credible 'Plan B'. Overall, there is the potential for further significant political uncertainty in the UK this week.
- In the Eurozone, a busy data calendar includes the preliminary reading of March HICP, with headline inflation expected to have held at just 1.5% in the month** Meanwhile, the unemployment rate looks to have remained constant at 7.8% in February. We also get February retail sales figures. Having increased by a strong 1.3% in January, the index is expected to rise by 0.2% on the month. Final March PMI data are also due. Meanwhile, the ECB meeting minutes are also out.

	Interest Rate Forecasts			
	Current	End Q2 2019	End Q3 2019	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 2019	End Q3 2019	End Q4 2019
EUR/USD	1.1229	1.14	1.15	1.17
EUR/GBP	0.8640	0.85	0.85	0.86
EUR/JPY	124.47	127	127	128
GBP/USD	1.2991	1.34	1.35	1.36
USD/JPY	110.83	111	110	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)		Release	Previous	Forecast
This Week:	ECB Speakers:		de Guindos (Monday); Praet (Tuesday); de Guindos (Friday)		
	Fed Speakers:		Kaplan (Tuesday); Kashkari (Wednesday); Harker, Mester, Williams (Thursday)		
Mon 1st	JPN:	00.50	Tankan Big Manufacturing Index (Q1)	19	13
			- Non-Manufacturing	24	22
	CHINA:	02.45	Caixin Manufacturing PMI (March)	49.9	49.9
	IRL:	06.00	AIB Manufacturing PMI (March)	54.0	
	EU-19:	09.00	Final Markit Manufacturing PMI (March)	49.3 / 47.6 (p)	47.6
	ITA:	09.00	Unemployment (February)	10.5%	
	UK:	09.30	CIPS / Markit Manufacturing PMI (March)	52.0	51.0
	EU-19	10.00	Preliminary HICP (March)	(+1.5%)	(+1.5%)
			- Ex-Food & Energy	(+1.2%)	
	EU-19:	10.00	Unemployment (February)	7.8%	7.8%
	US:	13.30	Retail Sales (February)	+0.2%	+0.3%
			- Ex-Autos	+0.9%	+0.3%
			- Ex-Gas, Autos & Building Materials	+1.1%	+0.4%
	US:	14.45	Final Markit Manufacturing PMI (March)	53.0 / 52.5 (p)	52.5
	US:	15.00	Manufacturing ISM (March)	54.2	54.1
	US	15.00	Construction Spending (February)	+1.4%	-0.3%
Tue 2nd	UK:	09.30	CIPS / Markit Construction PMI	49.5	50.0
	EU-19:	10.00	PPI (February)	+0.4% (+3.0%)	+0.1% (+3.1%)
	IRL:	11.00	Unemployment (March)	5.6%	5.6%
	US:	13.30	Durable Goods Orders (February)	+0.3%	-1.3%
	IRL:	16.30	Exchequer Balance (March)	-€1.1bn	-€1.2bn
	US:	20.30	Total Vehicle Sales (March)	16.6m	16.78m
Wed 3rd	CHINA:	02.45	Caixin Services (March)	51.1	52.3
	IRL:	06.00	AIB Services PMI (March)	55.9	
	FRA:	08.50	Final Markit Composite PMI (March)	50.4 / 48.7 (p)	48.7
	GER:	08.55	Final Markit Composite PMI (March)	52.8 / 51.5 (p)	51.5
	EU-19:	09.00	Final Markit Composite PMI (March)	51.9 / 51.3 (p)	51.3
			- Services	52.8 / 52.7 (p)	52.7
	UK:	09.30	CIPS / Markit Services PMI (March)	51.3	50.9
	EU-19:	10.00	Retail Sales (February)	+1.3%	+0.2%
	US:	14.45	Final Markit Composite PMI (March)	55.5 / 54.3 (p)	54.3
			- Services	56.0 / 54.8 (p)	54.8
	US:	15.00	Non-Manufacturing ISM (March)	59.7	58.2
			- Business Activity	64.7	
Thurs 4th	GER:	07.00	Industrial Orders (February)	-2.6%	+0.1%
	IRL:	11.00	Live Register (March)	-3,500/196,500	-2,500/194,000
	EU-19:	12.30	ECB Account from 7th-8th March Meeting Published		
	US:	13.30	Initial Jobless Claims (w/e 25th March)	211,000	217,000
Fri 5th	JPN:	06.00	Leading Indicators' Index (February)	-1.0	
	GER:	07.00	Industrial Output (February)	-0.8%	+0.5%
	FRA:	07.45	Trade Balance (February)	-€4.20bn	
			- Exports	-0.7%	
	UK:	08.30	Halifax House Prices (March)	+5.9% (+2.8%)	
	US:	13.30	Non-Farm Payrolls (March)	+20,000	+170,000
			- Unemployment	3.8%	3.8%
			- Average Earnings	(+3.4%)	(+3.4%)
	US:	20.00	Consumer Credit (February)	\$17.1bn	\$18.0bn

♦ 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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