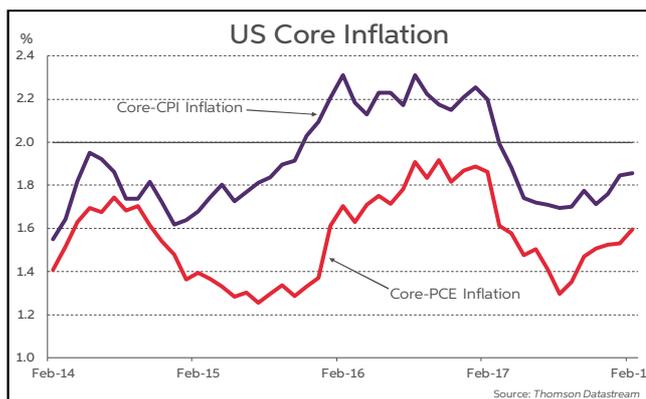


## Sentiment remains nervy

- **The action on financial markets during the first week of quarter two trading continued to highlight the more nervous backdrop to investor sentiment.** Despite some of the main equity markets managing to finish in positive territory by the end of the week, there were periods of risk aversion and volatility. This coincided with newsflow in relation to US/China trade relations, as well as tech sector sensitivity to the potential for increased regulation.
- In the early part of the week, the S&P 500 dropped below a key technical support level (its 200-day moving average) as concerns escalated about the risks of a 'trade war' and a sell-off in 'tech' stocks. At the same time, bond markets benefitted from the flight to safe-havens. Subsequent, reports out of both China and the US suggesting that both sides were open to negotiations to avoid a 'trade war' helped to provide some support to risk appetite. This was reflected in some modest gains for equity markets. Although, even as the week came to a close, sentiment continued to exhibit vulnerability to trade war related headlines. Meanwhile, **the volatility in equity markets continued to impact bond markets, with periods of risk aversion resulting in safe-haven demand, benefitting the fixed income sector.**
- **In contrast to the more volatile action elsewhere, the moves on currency markets remained muted and within very tight ranges.** The EUR/USD spent most of the week in a \$1.22-1.23 range, while the action in EUR/GBP was confined to the 87-88p band. It appears currency markets in general, remain more focused, for now, on the outlook and developments in relation to global monetary policy.

- **With that in mind, the release of the FOMC March minutes this week will warrant some attention.** The Fed hiked rates at the meeting, but continued to project only two more hikes in 2018 (three for the year in total). However, the FOMC came very close to projecting an additional hike with only one more FOMC member needed to flip to four hikes in 2018 for the median projection to move. Thus, **the minutes will be looked to for further insights into the Fed's interest rate outlook.**



- **Data-wise, given the importance of inflation and its influence on Fed policy, the CPI for March is a timely release.** Inflation is predicted to pick up further to 2.4%, from 2.2%. The core measure (ex-food and energy) looks set to have edged up to 2.1% from 1.8%, a one-year high. The Fed's preferred core-PCE measure of price pressures, showed inflation was at a more subdued 1.6% in February. **Preliminary Michigan consumer sentiment for April will provide a first look at the consumer side of the economy in Q2.** Sentiment was very strong in Q1, although consumption data were softer. The weaker spending followed a very strong Q4 performance, though, with expenditure growing at a three-year high of 4% (annualised).
- **Turning to the UK, industrial production for February is the highlight of a light calendar.** Output has been volatile in recent months due to temporary disruptions in oil and gas extraction. It is expected to have recorded a modest rise in February. Manufacturing, which excludes energy production and thus tends to be less volatile, is forecast to have recorded a 10th consecutive monthly increase. Meantime, UK goods trade figures for February are also due, with the trade deficit expected to have remained very large.
- **In the Eurozone, industrial production looks set to show some improvement in February, after unseasonably warm weather in January saw output fall by 1%** (depressed utilities component). In a quiet week, the Sentix index for April will be looked to for an early read of the economy at the start of Q2.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2018	2018	2018
Fed Funds	1.625	1.875	2.125	2.125
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	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
		2018	2018	2018
EUR/USD	1.2266	1.25	1.26	1.28
EUR/GBP	0.8711	0.88	0.87	0.86
EUR/JPY	131.45	133	132	132
GBP/USD	1.4078	1.42	1.45	1.49
USD/JPY	107.16	106	105	103

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Constâncio, Praet (Monday); Weidmann, Cœuré (Thursday)		
	<b>Fed Speakers:</b>	Bostic (Tuesday); Kashkari (Thursday); Rosengren, Bullard (Friday)		
<b>Mon 9th</b>	<b>JPN:</b> 07.00	Economy Watchers Survey (March)	48.6	
	<b>GER:</b> 07.00	Trade Balance (February)	€21.3bn	€21.4bn
		- Exports	-0.5%	+0.2%
	<b>UK:</b> 08.30	Halifax House Prices (March)	+0.4% (+1.8%)	+0.2% (+2.1%)
	<b>EU-19:</b> 09.30	Sentix Index (April)	24.0	20.3
<b>Tue 10th</b>	<b>FRA:</b> 07.45	Industrial Output (February)	-2.0%	+1.5%
	<b>ITA:</b> 09.00	Industrial Output (February)	-1.9%	+0.8%
	<b>US:</b> 11.00	NFIB Small Business Optimism (March)	107.6	
	<b>US:</b> 13.30	PPI (March)	+0.2% (+2.8%)	+0.1% (+2.9%)
<b>Wed 11th</b>	<b>UK:</b> 00.01	BRC Retail Sales (March)	+0.6%	
	<b>JPN:</b> 00.50	Domestic Wholesale Prices (March)	(+2.5%)	(+2.0%)
	<b>JPN:</b> 00.50	Core Machinery Orders (March)	(+2.9%)	(0.0%)
	<b>UK:</b> 09.30	Industrial Output (February)	+1.3% (+1.6%)	+0.3% (+2.9%)
		- Manufacturing	+0.1% (+2.7%)	+0.2% (+3.3%)
	<b>UK:</b> 09.30	Goods Trade Balance (February)	-£12.33bn	-£11.90bn
		- Non-EU	-£3.87bn	
	<b>US:</b> 13.30	CPI (March)	(+2.2%)	(+2.4%)
		- Ex-Food & Energy	(+1.8%)	(+2.1%)
	<b>US:</b> 19.00	Federal Budget (March)	-\$215.0bn	
	<b>US:</b> 19.00	FOMC Minutes from 20th-21st March Meeting Published		
<b>Thurs 12th</b>	<b>UK:</b> 00.01	RICS House Price Survey (March)	0	2
	<b>EU-19:</b> 10.00	Industrial Production (February)	-1.0% (+2.7%)	+0.5% (+4.3%)
	<b>IRL:</b> 11.00	<b>CPI (March)</b>	<b>+0.9% (+0.5%)</b>	<b>+0.4% (+0.4%)</b>
	<b>IRL:</b> 11.00	<b>Residential Property Prices (February)</b>	<b>+0.9% (+12.5%)</b>	<b>+0.3% (+12.5%)</b>
	<b>US:</b> 13.30	Import / Export Prices (March)	+0.4% / +0.2%	+0.2% / +0.3%
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 7th April)	242,000	231,000
<b>Fri 13th</b>	<b>CHINA:</b> 02.00	Trade Balance (March)	\$33.74bn	\$27.21bn
		- Exports	(+44.5%)	(+10.0%)
	<b>GER:</b> 07.00	Final HICP (March)	(+1.5%) (p)	(+1.5%)
	<b>US:</b> 15.00	Prelim' Michigan Consumer Sentiment (April)	101.4	100.5

◆ 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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