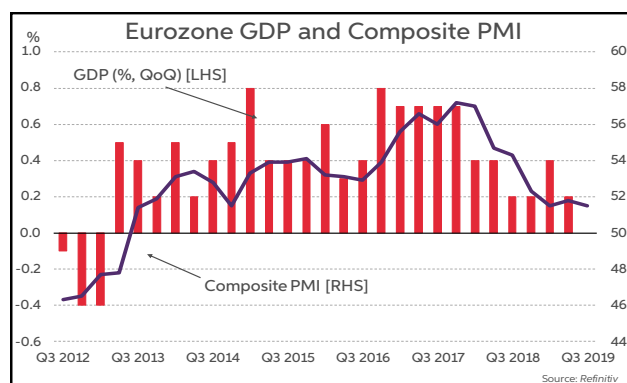


## Inverted Thinking

- Global economic concerns have been very much to the forefront of the market discourse over recent days.** Weaker than expected data out of China and the confirmation that the German economy contracted in the second quarter added to fears regarding the global economic outlook. These worries were compounded by the US yield curve inverting at the 2 year and 10 year point for the first time since 2007. Historically, this ‘inversion’ has preceded recessions in the US economy over the last 50 years.
- It must be noted, though, that the US curve could be providing somewhat of a misleading signal as the inversion is being driven by falls in both short term and long term rates.** In prior cycles, it was usually rising short-term rates that caused the inversion. Indeed, in contrast to the yield curve indicator, underlying US economic data are not signalling that the US economy is in major difficulty. Key metrics such as payroll growth and consumer spending are consistent with solid growth in the world’s largest economy. Backing up this point, US Fed Chair, Jerome Powell, stated at the central bank’s most recent policy setting meeting, that the “outlook for the US economy remains favourable”. More recently, FOMC member Bullard commented on the good shape of the jobs market and the strength of consumer spending.
- Given the uncertain global economic backdrop, it is not surprising that risk aversion remains the dominant feature of market action.** This was reflected in sharp falls on equity markets, with the S&P 500 down around 3% on the week. Meanwhile, safe haven demand is benefitting bond markets, with the German ten year bund yield falling to new record lows, below -0.70%. Against this background, interest rate markets are expecting further policy easing from the main central banks. In fact, the ECB’s Rehn stated that the central bank is preparing to announce a “very strong package of policy measures” to support the Eurozone economy at its next policy meeting in September. Futures contracts suggest the market is expecting close to 40bps of rate cuts from the ECB over the next 12 months. Meanwhile, in the US, the market is now envisaging around 110bps worth of rate cuts by end 2020, with 65bps of this anticipated by the turn of the year.
- For the week ahead, the highlight of what is a quiet data schedule is the release of the flash Eurozone PMIs for August.** The expectation is that the composite PMI dipped to 51.2, from 51.5, a level consistent with a subdued level of economic activity. In terms of the breakdown, both the manufacturing and service sector indices look to have edged lower in the month. At 46.2, the forecast is for the former to hold well below the key 50 level that separates growth from contraction for a seventh straight month. Meantime, a reading of 53 is pencilled in for the services PMI. On the consumer side, the EC flash measure of sentiment is projected to have moved slightly lower in August.
- With regard to monetary policy, the ECB’s account of its July meeting is due.** The central bank is expected to cut rates in September, as well as announce the resumption of new net asset purchases. Market participants will look to glean information on the level of support amongst the Governing Council members for these policies. **Meanwhile, the Fed’s July meeting minutes will also attract attention.** The central bank cut rates by 25bps at the meeting, framing the move as an insurance cut rather than the beginning of a sustained easing cycle. However, since then, trade tensions have escalated, a factor that the Fed indicated in July would influence its policy stance in the coming months. Therefore, markets will hope to gain an insight into how sensitive the central bank is to a deterioration in the global economic outlook. In terms of more timely updates, the Fed’s annual symposium in Jackson Hole will also warrant attention, with Fed Chair’s speech on Friday a particular point of interest.
- Data-wise, the main release in the US is the flash PMIs for August.** The manufacturing index is forecast to edge up marginally to 50.5, from 50.4. At the same time, the services PMI is projected to have moved slightly lower in the month, falling to 52.8. Overall, the consensus is that these movements will see the composite index hold at a level consistent with a relatively moderate rate of growth.
- Finally, the only data out of any note in the UK are July public finance figures and August CBI industrial orders.** Government borrowing is expected to have picked up, while Brexit related uncertainty may have continued to weigh on the industrial sector. In July, the orders index fell to a 9-year low level.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2019	2019	2020
Fed Funds	2.125	1.875	1.875	1.875
ECB Deposit	-0.40	-0.50	-0.50	-0.50
BoE Repo	0.75	0.75	0.75	0.75
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 Q3	End Q4	End Q1
		2019	2019	2020
EUR/USD	1.1070	1.12	1.16	1.17
EUR/GBP	0.9116	0.91	0.88	0.87
EUR/JPY	117.58	119	122	123
GBP/USD	1.2141	1.23	1.32	1.36
USD/JPY	106.21	106	105	105

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Coere, Lane, Lautenschlager (Thursday)		
	<b>Fed Speakers:</b>	Quarles (Tuesday); <b>Powell</b> (Friday)		
	<b>US:</b>	Jackson Hole Economic Policy Symposium (22nd-24th August)		
<b>Mon 19th</b>	<b>JPN:</b> 00.50	Trade Balance (July) - Exports	¥589.6bn -6.7%	-¥200.0bn -2.2%
	<b>EU-19:</b> 10.00	Final HICP (July) - Ex-Food & Energy	(+1.1%) (+1.1%)	(+1.1%) (+1.1%)
<b>Tue 20th</b>	<b>GER:</b> 07.00	PPI (July)	(+1.2%)	(+1.1%)
	<b>UK:</b> 11.00	CBI Industrial Orders (August)	-34	
<b>Wed 21st</b>	<b>UK:</b> 09.30	PSNB Ex-Interventions (July)	July '18: -£3.1bn	-£2.7bn
	<b>US:</b> 15.00	Existing Home Sales (July)	-1.7% / 5.3m	+1.9% / 5.4m
	<b>US:</b> 19.00	Minutes from the Fed's July Meeting Published		
<b>Thurs 22nd</b>	<b>JPN:</b> 01.30	Jibun Bank Manufacturing PMI (August)	49.4	
	<b>FRA:</b> 08.15	Flash Markit Composite PMI (August)	51.9	51.5
	<b>GER:</b> 08.30	Flash Markit Composite PMI (August)	50.9	50.5
	<b>EU-19:</b> 09.00	Flash Markit Composite PMI (August) - Manufacturing / Services	51.5 46.5 / 53.2	51.2 46.2 / 53.0
	<b>UK:</b> 11.00	CBI Distributive Trades (August)	-16	
	<b>EU-19:</b> 12.30	ECB's Account from July Meeting Published		
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 12th August)	220,000	215,000
	<b>US:</b> 14.45	Flash Markit Composite PMI (August) - Manufacturing / Services	52.6 50.4 / 53.0	50.5 / 52.8
	<b>EU-19:</b> 15.00	Flash Consumer Confidence (August)	-6.6	-7.0
<b>Fri 23rd</b>	<b>JPN:</b> 00.30	CPI (July)	(+0.7%)	(+0.7%)
	<b>US:</b> 15.00	New Home Sales (July)	+7.0% / 0.65m	+0.0% / 0.65m

◆ 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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