

Birds of a feather, fall together

- **One would not think it from the performance of markets over the summer, but economic data have been quite encouraging of late.** We now have GDP figures for the second quarter for all the main economies and they show a rebound in growth, after a sluggish start to the year. The US economy grew by 1% (4.1% annualised), its strongest quarterly performance since 2014. GDP expanded by 0.5% in Japan after contracting in the first quarter, while the growth rate in the UK picked up to 0.4% from 0.2%. Meanwhile, growth in the Eurozone remained steady at 0.4%. Labour markets have continued to tighten, with good employment growth and unemployment rates still in decline.
 - **The data available to date for Q3 have been solid,** with good July retail sales figures in particular. The JP Morgan Global Composite PMI came in at 53.7 in July, just below its Q2 average of 54.0. More generally, data have been coming in close to expectations in recent times, having undershot forecasts earlier in the year.
 - **Risk-off, though, is the dominant mood on markets.** Investor appetite has dissipated amidst escalating geopolitical tensions, trade rows and difficulties in some of the major emerging markets. **The current focus is on Turkey, but even if tensions there ease, there are fundamental problems besetting many emerging markets that are unlikely to abate anytime soon.** The rising US dollar, winding down of QE and higher interest rates are exposing financial vulnerabilities in emerging economies with high levels of external debt and large balance of payments issues. With signs emerging of a slowdown in China too, risk aversion is likely to remain the dominant theme in markets for some time.
 - **There is a relatively light calendar of data and events this week.** Of the data which are due, most of the main releases are in the Eurozone. This includes a raft of important surveys for August. The Composite PMI has moderated this year, while remaining at an overall encouraging level. **The flash Eurozone PMI is forecast to have edged up slightly in August to 54.5, from 54.3 in July.** Meanwhile, the flash EC measure of Eurozone consumer sentiment is anticipated to show a modest decline. Despite this, the index should still remain consistent with a solid pace of growth in consumer spending.
- The chart displays two data series from Q3 2011 to Q3 2018. The left Y-axis (LHS) represents GDP growth in percentage (QoQ), ranging from -0.6% to 1.0%. The right Y-axis (RHS) represents the Composite PMI (Quarterly Average), ranging from 44 to 60. GDP growth is shown as red vertical bars, and the Composite PMI is shown as a blue line. Both series show a general upward trend over the period, with a notable dip in early 2012 followed by a recovery.

Quarter	GDP (%) QoQ [LHS]	Composite PMI (Qrt. Average) [RHS]
Q3 2011	0.0	50.0
Q4 2011	-0.1	48.5
Q1 2012	-0.2	47.5
Q2 2012	-0.1	48.0
Q3 2012	0.0	49.0
Q4 2012	0.1	50.0
Q1 2013	0.2	51.0
Q2 2013	0.3	52.0
Q3 2013	0.4	53.0
Q4 2013	0.4	53.5
Q1 2014	0.4	54.0
Q2 2014	0.4	54.5
Q3 2014	0.4	54.5
Q4 2014	0.4	54.5
Q1 2015	0.4	54.5
Q2 2015	0.4	54.5
Q3 2015	0.4	54.5
Q4 2015	0.4	54.5
Q1 2016	0.4	54.5
Q2 2016	0.4	54.5
Q3 2016	0.4	54.5
Q4 2016	0.4	54.5
Q1 2017	0.4	54.5
Q2 2017	0.4	54.5
Q3 2017	0.4	54.5
Q4 2017	0.4	54.5
Q1 2018	0.4	54.5
Q2 2018	0.4	54.5
Q3 2018	0.4	54.5

Source: Thomson Datastream
- At a national level, the French INSEE index looks set to have held at 108, pointing to a solid pace of growth on the output side of the economy. The Belgian NBB survey is also set to feature. **In terms of monetary policy, the ECB 'account' from its July meeting is due out.** The meeting itself was a non-event, but markets will be looking for any further insights on potential policy tightening in 2019.
 - **The Fed meeting minutes will be published in the US.** The tone of the meeting statement was quite hawkish. The minutes will be looked to for further validation of expectations for additional rate hikes in September and December. Data-wise, the flash August PMIs (services and manufacturing) look set to have held at strong levels, suggesting that the economy remains on track to record very strong growth this year.
 - **A sparse UK calendar includes public finance data for July,** along with the CBI surveys (industrial orders and distributive trades) for August. **In Ireland, CSO housing completions figures for Q2 will be closely analysed.** There should be a continued strong uptrend in completions, albeit off a low base.

	Interest Rate Forecasts			
	Current	End Q3 2018	End Q4 2018	End Q1 2019
Fed Funds	1.875	2.125	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
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 2018	End Q4 2018	End Q1 2019
EUR/USD	1.1403	1.13	1.15	1.18
EUR/GBP	0.8959	0.90	0.88	0.87
EUR/JPY	125.97	125	125	126
GBP/USD	1.2725	1.26	1.31	1.36
USD/JPY	110.46	111	109	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	Fed Speakers:	Bostic (Monday)		
Mon 20th	GER: 07.00	PPI (July)	(+3.0%)	(+3.0%)
Tue 21st	UK: 09.30	PSNB Ex-Interventions (July)	July'17: -£0.72bn	-£1.10bn
	UK: 11.00	CBI Industrial Orders (August)	11	9
	IRL: 11.00	New Dwelling Completions (Q2)	(+26.9%) / 3,526	(+27.4%) / 4,200
Wed 22nd	US: 15.00	Existing Home Sales (July)	-0.6% / 5.38m s.a.a.r.	+1.3% / 5.40m
	US: 19.00	FOMC Minutes from 31st July—1st August Meeting Published		
Thurs 23rd	FRA: 07.45	INSEE Business Climate (August)	108	108
	FRA: 08.15	Flash Markit Composite PMI (August)	54.4	54.6
	GER: 08.30	Flash Markit Composite PMI (August)	55.0	55.1
	EU-19: 09.00	Flash Markit Composite PMI (August)	54.3	54.5
		- Manufacturing / Services	55.1 / 54.2	55.2 / 54.4
	UK: 11.00	CBI Distributive Trades (August)	20	13
	EU-19: 13.00	ECB Account from 25th-26th July Meeting Published		
	US: 13.30	Initial Jobless Claims (w/e 18th August)	212,000	215,000
	US: 14.45	Flash Markit Manufacturing PMI (August)	55.3	55.1
		- Services	56.0	56.2
	US: 15.00	New Home Sales (July)	-5.3% / 0.631m s.a.a.r.	+3.0% / 0.645m
	EU-19: 15.00	Flash EC Consumer Confidence (August)	-0.60	-0.70
Fri 24th	JPN: 00.30	CPI (July)	(+0.7%)	
	GER: 07.00	GDP (Q2: Second Reading)	+0.5% (p)	+0.5%
	US: 13.30	Durable Goods Orders (July)	+0.8%	-0.6%
	BEL: 14.00	NBB Leading Business Indicator (August)	-1.3	-0.5

◆ 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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.