Weekly Market Brief

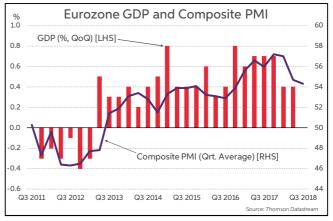
AIB Treasury Economic Research Unit



20th-24th August 2018

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.



- 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	End Q4	End Q1			
		2018	2018	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	End Q4	End Q1			
		2018	2018	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							



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ECONOMIC DIARY

Monday 20th—Friday 24th August 2018

Date		& Irish Time GMT+1)	Release	Previous	Forecast	
This Week:	ek: 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	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 P			
	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