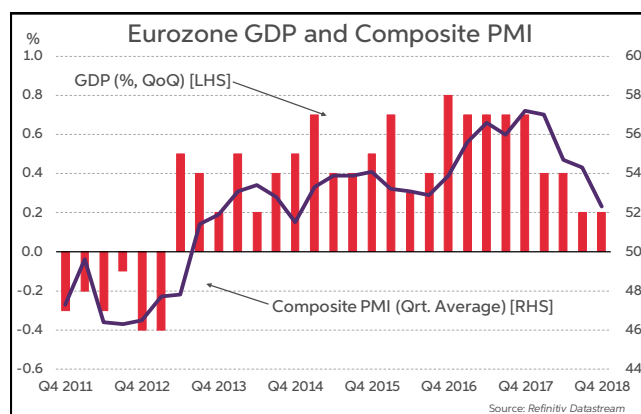


Central Banks Put Markets at Ease for Now

- Financial markets have been giving conflicting signals on the economic outlook in early 2019.** US stock markets are up by nearly 10% year-to-date, with the main European indices 6-7% higher. Meanwhile, oil prices have risen by 20% so far this year. By contrast, US Treasury yields are little changed, while German and UK bond yields are about 15bps lower. It could be argued that the rise in equities and oil prices simply represents a rebound following their sharp fall in the closing months of last year. However, the same logic does not carry through to the bond market, with yields continuing to decline in Europe in the opening weeks of 2019 and stabilising at lower levels in the US.
- It is more likely that the markedly more dovish soundings emanating from central banks globally this year has been the main driver of markets.** This has added fuel to the rally in bond markets, while convincing stock markets that monetary policy will remain supportive of growth. The fact that virtually all central banks have been singing from very similar hymn sheets has also meant that currency markets have been very range bound so far this year. **The markets view is that all the major central banks will keep interest rates unchanged in 2019.** Thus, even though the market now believes that US rates have peaked, the dollar has not lost any ground as expectations of rate hikes elsewhere have also evaporated. This benign backdrop for markets will not last forever. Ultimately data will show whether we are witnessing a temporary slowdown in activity or the start of a cyclical downturn in the global economy. Central banks and markets will respond accordingly.
- Turning to the week ahead, a busy Eurozone data schedule includes the February flash PMIs.** The composite index is expected to have been little changed in the month, indicating that growth has so far failed to regain momentum in the region in 2019. The flash reading of the EC measure of consumer confidence for February is also set to feature. The index is forecast to have held constant. On a national level, the French INSEE and German Ifo indices are projected to show that business confidence was unchanged in February.
- In terms of monetary policy updates, we get the ECB account from its January meeting.** Weak Eurozone macro data in recent months led ECB President Draghi to acknowledge the deterioration in the economic outlook for the region. Thus, markets will hope to glean an insight into what this development means for future ECB policy. **The Fed will also release minutes from the January FOMC meeting this week.** The central bank performed a notable U-turn at the meeting, as the reference in the statement to further gradual rate increases was removed. This was despite the FOMC guiding that two further 25 bps rate hikes would occur in 2019 at their December meeting. Additionally, the only hard economic data released between the two meetings were very positive labour market figures. Therefore, investors will be looking to the minutes for further detail on the discussion surrounding this dramatic shift in the Fed's policy stance.
- Data-wise in the US, the highlight of the calendar are the flash PMIs for February.** Both the manufacturing and service sector indices are forecast to have remained steady in the month, leaving the composite PMI at a level consistent with solid economic growth. The Philly Fed index is also due for February. Meantime, a housing market update will be provided in the form of existing home sales figures for January and the February NAHB homebuilder sentiment index.
- In the UK, the employment report for December is expected to show that despite ongoing Brexit uncertainty, the labour market remains strong.** It is anticipated that employment rose by 155k in the latest 3 months, which would lift the year-on-year growth rate to 1.3%. Meantime, the unemployment rate looks set to have held at the joint multi-decade low of just 4.0% as labour force growth remains dented by lower immigration. It is envisaged that the lack of slack in the labour market will see the annual growth rate of average weekly earnings (ex-bonus) rise to a new cycle high of 3.4%. **In Ireland, the Labour Force Survey for Q4 is due.** Growth in employment may have slowed slightly in the quarter, while remaining strong.



	Interest Rate Forecasts			
	Current	End Q1 2019	End Q2 2019	End Q3 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	0.75
BoJ OCR	-0.10	-0.10	-0.10	-0.10

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q1 2019	End Q2 2019	End Q3 2019
EUR/USD	1.1279	1.13	1.14	1.15
EUR/GBP	0.8791	0.87	0.86	0.86
EUR/JPY	124.52	124	125	125
GBP/USD	1.2827	1.30	1.33	1.34
USD/JPY	110.39	110	110	109

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	Wunsch (Monday); de Guindos, Praet (Tuesday); Praet (Wednesday); Praet (Thursday); Draghi (Friday)		
	Fed Speakers:	Mester (Tuesday); Bullard, Clarida, Strine, Williams (Friday)		
Mon 18th	US:	Presidents' Day (Market Holiday)		
	JPN: 00.00	Core Machinery Orders (December)	(+0.8%)	(+4.8%)
Tue 19th	EU-19: 09.00	Current Account (December)	€20.3bn	
	UK: 09.30	ILO Employment (3 months to December) - Unemployment	+141,000 4.0%	+155,000 4.0%
	UK: 09.30	Average Weekly Earnings (3 months to Dec) - Ex-Bonus	(+3.4%) (+3.3%)	(+3.5%) (+3.4%)
	GER: 10.00	ZEW Economic Sentiment (February)	-15.0	-14.0
	IRL: 11.00	LFS—Employment (Q4)	(+3.0%)	(+2.5%)
	US: 15.00	NAHB Homebuilders' Sentiment (February)	58	59
	JPN: 23.50	Trade Balance (January) - Exports	-¥56.7bn (-3.9%)	-¥1,011bn (-5.5%)
Wed 20th	GER: 07.00	PPI (January)	(+2.7%)	(+2.2%)
	UK: 11.00	CBI Industrial Orders Index (February)	-1	
	EU-19: 15.00	Flash EC Consumer Confidence (February)	-7.9	-7.9
	US: 19.00	Minutes from the Fed's 29th-30th January Meeting Published		
Thurs 21st	GER: 07.00	Final HICP (January)	(+1.7%)	(+1.7%)
	FRA: 07.45	INSEE Business Climate (February)	103	103
	FRA: 07.45	Final HICP (January)	(+1.4%)	(+1.4%)
	FRA: 08.15	Flash Markit Composite PMI (February)	48.2	49.5
	GER: 08.30	Flash Markit Composite PMI (February)	52.1	52.0
	EU-19: 09.00	Flash Markit Composite PMI (February) - Manufacturing / Services	51.0 50.5 / 51.2	50.9 50.3 / 51.4
	UK: 09.30	PSNB Ex-Interventions (January)	Jan'18: -£10.1bn	-£10.1bn
	ITA: 10.00	Final HICP (January)	(+0.9%)	(+0.9%)
	EU-19: 13.30	ECB Account from 23rd-24th January Meeting Published		
	US: 13.30	Durable Goods Orders (December)	+0.7%	+1.7%
	US: 13.30	Initial Jobless Claims (w/e 11th February)	239,000	225,000
	US: 13.30	Philly Fed Index (February)	17.0	15.0
	US: 14.45	Flash Markit Composite PMI (February) - Manufacturing / Services	54.4 54.9 / 54.2	54.3 54.7 / 54.2
	US: 15.00	Existing Home Sales (January)	-6.4% / 4.99m	+0.9% / 5.03m
	JPN: 23.30	CPI (January)	(+0.3%)	
Fri 22nd	GER: 07.00	GDP (Second Reading)	+0.0% (+0.6%) (p)	+0.0% (+0.6%)
	GER: 09.00	Ifo Business Climate (February)	99.1	99.0
	EU-19: 10.00	Final HICP (January) - Ex-Food & Energy	(+1.4%) (+1.2%)	(+1.4%) (+1.2%)
	UK: 11.00	CBI Distributive Trades (February)	0	

◆ 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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