

They think it's all over

- Stock markets staged a good recovery over the course of the past week, with most up by around 3-5% from their lows of the previous week.** However, markets are still 5-10% below their January peaks. As we stated last week, we do not view the recent correction as the pre-cursor to a major stock market crash, but rather signalling a return to greater volatility in markets. Other trends re-established themselves in the past week, namely upward pressure on bond yields and downward pressure on the dollar.
- The recent instability in financial markets has its roots in hardening interest rate expectations,** as central banks start to row back on super-easy monetary policy. Markets have moved to discount 100bps of rate tightening in the Eurozone and UK by the end of 2020, with around 115bps in rates hikes being priced in for the US. **This would take rates up to around 0.5% in the Eurozone, 1.5% in the UK and 2.5% in the US by end 2020.** Judging by futures contracts, this represents an upward shift in rate expectations of 75bps in the Eurozone, 110bps in the UK and almost 100bps in the US since the start of September, when markets began turning more bearish.
- A key question is whether markets have priced in enough rate tightening in the next couple of years. The answer in most cases is probably yes, provided inflation remains relatively subdued.** Thus, not surprisingly, inflation indicators are moving right to the top of investors agendas as something to be watched very closely. **The one market which may see a further hardening of rate hike expectation is the US.** The Fed has projected that US rates are likely to rise to 3.1% by 2020, but the market is pricing in only 2.5%. There have been signs recently in US wage data, PPI and CPI figures that underlying inflationary pressures could be starting to build. Furthermore, there would appear to be an on-going loosening of fiscal policy. The less than 50bps of Fed policy tightening that markets are pricing in for 2019-2020 would not seem to be sufficient in these circumstances.

- In the week ahead, a raft of key labour market data are due in the UK.** Employment is forecast to record a healthy 185k rise in the three months to December, after the marked pick-up in data to November. Although, some increase in the labour force means the unemployment rate looks set to have held at 4.3%.



- The recent UK data have suggested that 'slack' in the UK labour market has continued to dissipate.** The recent BoE Business Conditions Survey for Q4 showed that the numbers of employers reporting difficulty in hiring workers rose for a fourth consecutive quarter to its highest level since Q3 2004. In theory, this should put upward pressure on wages, as employers compete for workers. **However, wage growth looks to have remained moderate in Q4,** with a year-on-year rise in weekly earnings of 2.5% anticipated.
- UK watchers will also be paying close attention to this Friday's meeting of the EU 27 (excludes UK) leaders.** They are due to discuss the on-going Brexit negotiations and plans for EU reform. **In terms of Eurozone data, the key release will be the flash composite PMI for February.** The index rose to an 11½-year high in January and it is expected to remain close to that level, indicating the economy continues to grow strongly. Strong results from the February flash EC consumer confidence, German Ifo and French INSEE indices are also expected.
- In the US, markets will be looking to Wednesday's FOMC minutes release for further insights into the current thinking of the Fed.** The meeting statement struck a more upbeat tone on growth and inflation, so it will be interesting to see if there is any suggestion in the minutes that this could have an impact on the Fed's interest rate outlook. Data-wise, the flash Markit PMIs for February are the main release stateside this week.

	Interest Rate Forecasts			
	Current	End Q1 2018	End Q2 2018	End Q3 2018
Fed Funds	1.375	1.625	1.875	1.875
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	0.50	0.50	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 Q1 2018	End Q2 2018	End Q3 2018
EUR/USD	1.2432	1.22	1.19	1.17
EUR/GBP	0.8869	0.89	0.88	0.87
EUR/JPY	132.19	135	134	135
GBP/USD	1.4014	1.37	1.35	1.34
USD/JPY	106.32	111	113	115

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	Fed Speakers:	Kashkari (Wednesday); Kashkari, Dudley, Bostic (Thursday); Dudley, Mester, Williams (Friday)		
	ECB Speakers:	Cœuré (Friday)		
	BoE Speakers:	Ramsden (Friday)		
Mon 19th	US:	Presidents' Day (Market Holiday)		
	EU-19:	09.00	Current Account (December)	€32.5bn
Tue 20th	GER:	10.00	ZEW Economic Sentiment (February)	20.4
	UK:	11.00	CBI Industrial Orders (February)	14
	EU-19:	15.00	Flash EC Consumer Sentiment (February)	1.30
Wed 21st	FRA:	08.00	Flash Markit Composite PMI (February)	59.6
	GER:	08.30	Flash Markit Composite PMI (February)	59.0
	EU-19:	09.00	Flash Markit Composite PMI (February)	58.8
			- Manufacturing / Services	59.6 / 58.0
	UK:	09.30	PSNB Ex-Interventions (January)	Jan'17: -£11.74bn
	UK:	09.30	Employment (3 Mths to December)	102,000
			- ILO Unemployment	4.3%
	UK:	09.30	Average Weekly Earnings (3 Mths to December)	(+2.5%)
			- Ex-Bonus	(+2.4%)
	US:	14.45	Flash Markit Manufacturing PMI (February)	55.5
			- Services	53.3
	US:	15.00	Existing Home Sales (January)	-3.6% / 5.57m s.a.a.r.
	US:	19.00	FOMC Minutes from 30th-31st January Meeting Published	+0.8% / 5.60m
Thurs 22nd	FRA:	07.45	INSEE Business Climate (February)	113
	FRA:	07.45	Final HICP (January)	(+1.5%) (p)
	GER:	09.00	Ifo Business Climate (February)	117.6
	UK:	09.30	GDP (Q4: Second Reading)	+0.5% (+1.5%) (p)
	ITA:	10.00	Final HICP (January)	(+1.1%) (p)
	UK:	11.00	CBI Distributive Trades (February)	12
	EU-19:	13.00	ECB Account from 24th-25th January Meeting Published	
	US:	13.30	Initial Jobless Claims (w/e 17th February)	230,000
	BEL:	14.00	NBB Leading Business Indicator (February)	1.8
	US:	15.00	Leading Indicators Index (January)	+0.5% / 107.0
	JPN:	23.30	CPI (January)	(+1.0%)
Fri 23rd	GER:	07.00	GDP (Q4: Second Reading)	+0.6% (+2.9%) (p)
	EU-19:	10.00	Final HICP (January)	(+1.3%) (p)
			- Ex-Food & Energy	(+1.2%) (p)
	EU-27:		Meeting of EU Leaders (Excluding the United Kingdom)	(+1.2%)

◆ 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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