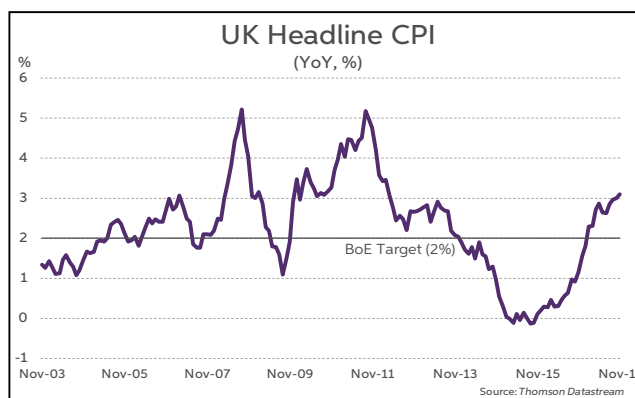


Tapering by Stealth

- While monetary policy globally is set to remain very accommodative over the next couple of years, there was further evidence in the past week that the long period of monetary easing is coming to an end.** The 'account' of the ECB policy meeting in December showed that council members see a need to change its forward guidance early in 2018. This is likely to see the ECB drop its easing bias. **It increases the likelihood that net asset purchases under its QE programme will cease by the end of the year, with rates likely to start rising in 2019.** Meanwhile, the Bank of Japan signalled early in the week that there is to be a slight reduction in purchases of long-dated bonds under its QE programme.
- Neither of these events in themselves signal major changes, but they impacted markets, with bond yields rising and gains being made by the euro and the yen. The moves in FX markets were notable. The dollar fell from above ¥113 to down near ¥111, while the euro hit a three year high, rising above the \$1.21 level, having traded down near \$1.19 earlier in the week. **We warned last week that there could be considerable volatility in FX markets in the coming months and this is already becoming apparent.**
- Where EUR/USD goes from here is a difficult call, but a significant dollar support level has given way at \$1.21.** The market is long euros but still seems inclined to take the currency higher. This may be the long-term trend, but there could also be a large repatriation of funds back to the US this year to take advantage of a corporate tax amnesty that would benefit the dollar, as happened in 2005. This could see the euro fall back towards \$1.16. Bond yields are likely to continue edging higher but remain low overall, as long as inflation stays subdued.
- With regard to the data schedule in the week ahead, in the UK we get the CPI for December.** Inflation reached a 5½-year high of 3.1% in November, continuing the strong upward trend which has seen it rise from just 0.5% at the time of the Brexit vote in 2016. This has largely reflected the resulting sharp fall in sterling leading to higher import prices. Inflation is predicted to have held at 3.1% in December, despite further increases in oil prices in the month. The core measure (ex-food and energy) looks set to have edged down to 2.6%. **The rise in inflation, combined with broadly static wage growth, has seen consumer spending weaken in the UK.** However, the retail sales component of spending has improved recently. It posted a very strong Black Friday inspired jump of 1.1% in November, with only a modest retracement (-0.6%) forecast this week for the December data.
- In the US, industrial production is expected to have shown another healthy increase in December.** We could see overall Q4 growth in output of c.1.5% after it declined by 0.2% in Q3. The strong performance partly reflects a rebound from the severe weather conditions in the Q3. The timelier NY and Philly Fed indices, as well as the Michigan measure of consumer sentiment, look set to remain at solid in January. A number of housing market updates are due in the coming days, including NAHB sentiment (January) and starts (December).
- There is a very light schedule in the Eurozone.** Indeed, final HICP for December is the main release of note. Inflation is still expected to have slowed slightly to 1.4%, with the core metric holding at 1.1%. We also get a first look at Q4 GDP from a major global economy, with **China predicted to have recorded a strong 6.7% year-on-year rate of growth.** Finally, **a busy Irish schedule includes the first publication of the CSO's new Labour Force Survey,** which is replacing the old National Household Survey. It is likely to show that the pace of year-on-year growth in employment remained very encouraging in Q3, perhaps close to 2.5%.



	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	0.50
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	1.2140	1.20	1.18	1.16
EUR/GBP	0.8878	0.89	0.88	0.87
EUR/JPY	135.28	134	135	135
GBP/USD	1.3671	1.35	1.34	1.33
USD/JPY	111.42	112	114	116

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	Fed Speakers:	Evans, Kaplan, Mester (Wednesday)		
	ECB Speakers:	Cœuré (Thursday)		
	BoE Speakers:	Tenreyro (Monday)		
Mon 15th	US:	Martin Luther King Day (Market Holiday)		
	FRA: 07.45	Non-Farm Payrolls (Q4)	+0.2%	
	FRA: 07.45	Final HICP (December)	(+1.3%) (p)	(+1.3%)
	IRL: 11.00	Goods Trade Balance (November)	€3.9bn	€2.9bn
	JPN: 23.50	Domestic Wholesale Prices (December)	(+3.5%)	(+3.2%)
Tue 16th	UK: 09.30	CPI (December)	+0.3% (+3.1%)	+0.4% (+3.1%)
		- Ex-Food & Energy	+0.3% (+2.7%)	+0.4% (+2.6%)
	UK: 09.30	PPI Output (December)	+0.3% (+3.0%)	+0.3% (+2.9%)
		- Input	+1.8% (+7.3%)	+0.4% (+5.4%)
	ITA: 10.00	Final HICP (December)	(+1.0%) (p)	(+1.0%)
	IRL: 11.00	Labour Force Survey-Employment (Q3)	(+2.4%)	(+2.4%)
	IRL: 11.00	Unemployment (December)	6.1%	6.1%
	IRL: 11.00	CPI (December)	+0.1% (+0.5%)	+0.1% (+0.6%)
	US: 13.30	NY Fed/Empire State Index (January)	18.0	18.5
	JPN: 23.50	Core Machinery Orders (November)	(+2.3%)	(-0.7%)
Wed 17th	EU-19: 10.00	Final HICP (December)	(+1.4%) (p)	(+1.4%)
		- Ex-Food & Energy	(+1.1%) (p)	(+1.1%)
	US: 14.15	Industrial Production (December)	+0.2%	+0.3%
		- Capacity Utilisation	77.1%	77.3%
	US: 15.00	NAHB Homebuilders' Sentiment (January)	74	72
	CAN: 15.00	BoC Interest Rate Announcement	1.00%	1.25%
Thurs 18th	UK: 00.01	RICS House Price Survey (December)	0	0
	CHINA: 02.00	GDP (Q4)	+1.7% (+6.8%)	+1.6% (+6.7%)
	CHINA: 02.00	Industrial Output (December)	(+6.1%)	(+6.0%)
	US: 13.30	Housing Starts (December)	+3.3% / 1.297m s.a.a.r.	-1.7% / 1.275m
		- Permits	-1.0% / 1.303m s.a.a.r.	-1.0% / 1.290m
	US: 13.30	Initial Jobless Claims (w/e 13th January)	261,000	252,000
	US: 13.30	Philly Fed Index (January)	26.2	24.5
Fri 19th	GER: 07.00	PPI (December)	+0.1% (+2.5%)	+0.2% (+2.3%)
	EU-19: 09.00	Current Account (November)	€30.8bn	
	UK: 09.30	Retail Sales (December)	+1.1% (+1.6%)	-0.6% (+3.1%)
	US: 15.00	Prelim' Michigan Consumer Sentiment (January)	95.9	97.0

◆ 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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