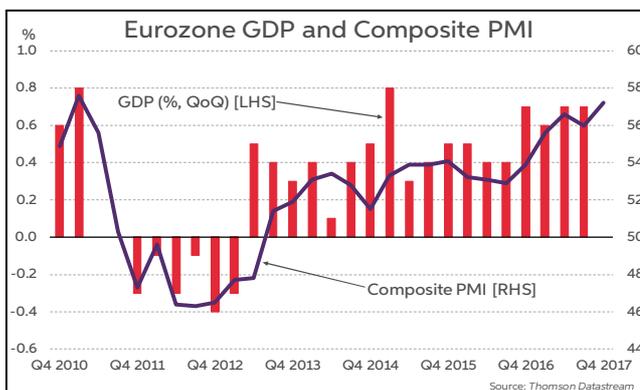


Let's be careful out there

- Markets were generally becalmed last year**, with equities rallying in an environment of exceptionally low volatility, bonds largely range bound and currencies also confined to relatively narrow trading ranges in the second half of the year, once the pressure on the dollar and sterling abated. **We suspect that we are in for much more volatile trading in financial markets this year**, as central banks grapple with withdrawing a massive monetary stimulus without inflicting damage on economies and markets.
- US stock markets are showing signs of 'irrational exuberance' as they continue to pile on gains at stretched valuations in virtual one-directional trading.** It is worrying that US stock markets have not seen any appreciable setback of more than 5% in the past two years. Indeed, the Dow Jones has risen by 45% since Trump's election in November. Meanwhile, trading positions in some key FX markets look very stretched, with net long euro positions at their highest level on record and net long sterling positions the highest since September 2014, while the market is short the dollar. Range trading at the long end of the bond market also looks to be breaking down, with ten year Treasury yields climbing above 2.6% to their highest level since September 2014.
- Markets continue to believe that low inflation means central banks can be patient about withdrawing very accommodative monetary conditions.** Thus, they are especially alert to any signs inflation could be picking up, which there have not been to date. They are also very sensitive to hints that central banks could be reassessing their policy stance in the context of a global recovery that is gathering increasing momentum. Central bank meetings will be very important for markets in the coming months. **We have two important meetings this week, the BoJ and ECB. No policy changes are anticipated from the BoJ**, after it surprised markets earlier this month by announcing that it was trimming purchases of longer dated bonds under its QE programme.
- No policy changes are expected from the ECB either. However, the December meeting account was interpreted as being more hawkish.** It stated that if the data showed inflation moving towards target and solid economic growth, then the "language pertaining to various dimensions of the monetary policy stance and forward guidance could be revisited early in the coming year". Thus, markets will be analysing the meeting statement and President Draghi's press conference for updates in this regard. **The ECB may hold off on making any major changes to its language this week, perhaps preferring to wait for updated staff forecasts in early March.**
- Data-wise, in the Eurozone we get a number of survey indicators for January.** The key composite PMI rose to a near 7-year high in December and is forecast to hold near this level in January, suggesting the economy maintained its strong momentum into the New Year. Similarly strong results are expected from the flash EC measure of Eurozone consumer confidence, the German Ifo and French INSEE indices.
- It is also a very busy week in the UK, with the first reading of Q4 GDP due.** Survey data in the quarter have generally pointed to a slight pick-up in growth (e.g. composite PMI avg 55.2 vs 54.1 in Q3). **The consensus, though, is for another quarterly rise of 0.4%.** In terms of the labour market, employment looks to have declined by 13k in the three months to November. However, a shrinking UK labour force means the unemployment rate should remain at just 4.3%. Despite a tighter labour market, earnings growth is expected to have remained subdued at 2.5% in the three months to November. **Finally in the US, Q4 GDP is also due.** Data there have been solid, though adverse weather conditions in December might act as a slight headwind in the quarter. Despite this, **the economy is predicted to have recorded a third consecutive annualised quarterly rise of 3% or above, the first such occurrence since Q1 2005.**



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2018	2018	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	End Q2	End Q3
		2018	2018	2018
EUR/USD	1.2239	1.22	1.19	1.17
EUR/GBP	0.8822	0.89	0.88	0.87
EUR/JPY	135.43	135	134	135
GBP/USD	1.3869	1.37	1.35	1.34
USD/JPY	110.65	111	113	115

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	Fed Speakers:	Evans (Tuesday)		
	ECB Speakers:	Cœuré (Friday)		
Mon 22nd	US:	13.30 Chicago Fed National Activity Index (December)	0.15	
Tue 23rd	JPN:	BoJ Interest Rate Announcement	-0.1% - 0%	-0.1% - 0%
	UK:	09.30 PSNB Ex-Interventions (December)	Dec'16: £5.27bn	£5.00bn
	GER:	10.00 ZEW Economic Sentiment (January)	17.4	17.9
	UK:	11.00 CBI Industrial Orders Survey (January)	17	12
	EU-19:	15.00 Flash EC Consumer Sentiment (January)	0.5	0.6
	JPN:	23.50 Trade Balance (December) - Exports	¥112.2bn (+16.2%)	¥530.0bn (+10.1%)
Wed 24th	FRA:	08.00 Flash Markit Composite PMI (January)	59.6	59.4
	GER:	08.30 Flash Markit Composite PMI (January)	58.9	58.6
	EU-19:	09.00 Flash Markit Composite PMI (January) - Manufacturing / Services	58.1 60.6 / 56.6	58.0 60.3 / 56.5
	UK:	09.30 Employment (3 Months to November) - ILO Unemployment	-56,000 4.3%	-13,000 4.3%
	UK:	09.30 Average Earnings (3 Months to November) - Ex-Bonus	(+2.5%) (+2.3%)	(+2.5%) (+2.3%)
	US:	14.45 Flash Markit Manufacturing PMI (January) - Services	55.1 53.7	55.1 54.0
	US:	15.00 Existing Homes Sales (December)	+5.6% / 5.81m s.a.a.r.	-1.5% / 5.70m
Thurs 25th	GER:	07.00 Gfk Consumer Sentiment (February)	10.8	10.8
	GER:	09.00 Ifo Business Climate (January)	117.2	117.2
	UK:	11.00 CBI Distributive Trades Survey (January)	20	15
	EU-19:	12.45 ECB Refinancing Rate Announcement - Deposit Rate	0.00% -0.40%	0.00% -0.40%
	EU-19:	13.30 ECB Press Conference		
	US:	13.30 Goods Trade Balance (December)	-\$70.0bn	
	US:	13.30 Initial Jobless Claims (w/e 20th January)	220,000	240,000
	US:	15.00 Leading Indicator Index (December)	+0.4% / 130.9	+0.5% / 131.6
	US:	15.00 New Home Sales (December)	17.5% / 0.733m s.a.a.r.	-7.2% / 0.680m
	JPN:	23.30 CPI: Nationwide (December) / Tokyo (January)	(+0.9%) / (+0.8%)	
Fri 26th	FRA:	07.45 INSEE Business Climate (January)	112	112
	FRA:	07.45 Consumer Confidence (January)	105	106
	EU-19:	09.00 M3 Money Supply (December)	(+4.9%)	(+4.9%)
	UK:	09.30 GDP (Q4: First Reading)	+0.4% (+1.7%)	+0.4% (+1.4%)
	US:	13.30 Durable Goods Orders (December)	+1.3%	+0.9%
	US:	13.30 GDP (Q4: First Reading)	+3.2% s.a.a.r.	+3.0%

◆ 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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