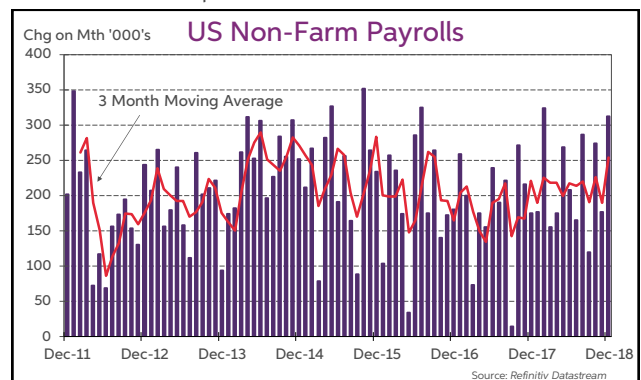


## A Slippery Path

- A sense of calm has returned to financial markets in January after a turbulent final quarter to last year.** Equities have made some solid gains, with most of the main stock market indices up by 4-5% since the start of the year. Ten year Treasury yields have risen by about 15bps from their lows earlier in the month, but European bond markets are more cautious. Ten year bund yields are pinned down below 0.2%, while ten year gilt yields also remain near recent lows. Currency markets have been range bound, with the notable exception of sterling. It has gained ground on a growing belief that a no-deal hard Brexit will be avoided.
- The worries that plagued markets in the closing months of last year, though, have not gone away, especially in relation to the prospects for global growth. In particular, data out of Europe and China have continued to weaken.** Eurozone PMI and German Ifo data for January were disappointingly weak, suggesting that the slowdown in European activity is gathering momentum. This saw the ECB acknowledge this week that the risks to the outlook for the Eurozone economy have moved to the downside.
- Meanwhile, the latest IMF Economic Update, published in the past week, saw it lower its growth forecasts for the global economy, albeit marginally.** It noted, though, that the risks to global growth are tilted to the downside. Indeed, we see significant downside risks to its growth forecasts of 1.6% for the Eurozone and 1.5% for the UK in 2019. Most analysts seem reasonably confident that still very low interest rates, an expansionary stance to fiscal policy, pick up in wage growth and declining headline inflation, combined with an expected softening in global trade tensions, will help the global economy regain momentum as the year progresses. However, there is no sign of this occurring yet, especially in Europe which is moving ever closer to recession. It is no wonder, then, that bond markets remain very cautious.
- Turning to the week ahead, the Fed is due to hold its January FOMC meeting.** No changes to policy are expected. At its last meeting, the FOMC raised interest rates by 25bps, lifting the target range for the Fed funds rate to 2.25%-2.50%. The committee also scaled back its rate hike projections for 2019 from three 25bps increases to two. Recent comments from Fed speakers have struck a note of caution, with Fed Chair Powell stating that further hikes are data-dependent. It is expected that the FOMC will continue to stress this more cautious tone at this week's meeting. Indeed, markets are no longer pricing in any rate hikes in 2019.
- Data-wise, the on-going partial US federal government shutdown means the first reading of Q4 GDP and the December printing of core-PCE inflation are unlikely to be published.** However, we still get the January employment report. Non-farm payrolls expanded by a very robust 312k in December. In January, still solid, but less impressive growth of 168k is anticipated. Meantime, the unemployment rate is forecast to have held at just 3.9%, while the yearly growth rate of average hourly earnings is expected to remain above the 3% level for a fourth consecutive month. The Employment Cost Index, the Fed's preferred measure of wage inflation, is also due this week. It is anticipated that wage inflation picked up to 3.0% in Q4, from 2.8%. The manufacturing ISM, which is projected to have edged upwards in January, will also feature.
- In the Eurozone, the highlight is the first reading of Q4 GDP.** The consensus is for quarterly growth to have held at just 0.2% as leading indicators, such as the PMIs, suggest that the economy failed to regain momentum in the quarter. Meanwhile, the unemployment rate is forecast to have remained steady at 7.9% in December. In terms of more timely updates, it is envisaged that the January EC sentiment indices, mirroring last week's disappointing composite PMI reading, will have all dipped in the month. On the inflation front, lower energy prices are expected to result in the headline rate of HICP moderating to 1.4%, from 1.6% in January, while the core measure looks to have held at 1.1%, a very subdued level.
- The only release of note in a quiet UK calendar is the manufacturing PMI for January, with a small move downward forecast.** This week also sees Parliament debate Brexit again and vote on a government motion on how it intends to progress its 'Plan B'. A number of important amendments to this motion are also likely to be voted on, including the Cooper amendment. If passed, this amendment will allow Parliament to vote on whether to extend Article 50, if a deal is not in place by the end of February, in order to avoid a no-deal hard Brexit at the end of March.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
	2019	2019	2019	2019
Fed Funds	2.375	2.375	2.625	2.625
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	0.75	0.75	1.00
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
	2019	2019	2019	2019
EUR/USD	1.1371	1.16	1.17	1.18
EUR/GBP	0.8668	0.88	0.87	0.86
EUR/JPY	124.82	126	128	129
GBP/USD	1.3116	1.32	1.34	1.37
USD/JPY	109.77	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>BoE Speakers:</b>	Haldane (Tuesday)		
	<b>ECB Speakers:</b>	<b>Draghi</b> , Nowotny (Monday); Nowotny (Tuesday); Coeure, Mersch (Thursday)		
<b>Mon 28th</b>	<b>EU-19:</b>	09.00 M3 Money Supply (December)	(+3.7%)	(+3.8%)
	<b>IRL:</b>	<b>11.00 Retail Sales (December)</b>	<b>-0.1% (+3.6%)</b>	<b>+0.5% (+5.8%)</b>
<b>Tue 29th</b>	<b>UK:</b>	Parliament Debates and Votes on PM Theresa May's 'Plan B'		
	<b>FRA:</b>	07.45 Consumer Confidence (January)	87	88
	<b>US:</b>	14.00 Case-Shiller House Prices (November)	+0.4% (+5.0%)	
	<b>US:</b>	15.00 Consumer Confidence (January)	128.1	125.0
<b>Wed 30th</b>	<b>FRA:</b>	06.30 GDP (Q4: First Reading)	+0.3%	+0.2%
	<b>GER:</b>	07.00 GfK Consumer Sentiment (February)	10.4	10.3
	<b>FRA:</b>	07.45 Consumer Spending (December)	-0.3%	-0.1%
	<b>ITA:</b>	09.00 ISTAT Business Confidence (January)	103.6	102.9
	<b>ITA:</b>	09.00 Consumer Confidence (January)	113.1	112.5
	<b>UK:</b>	09.30 BoE Mortgage Approvals (December)	63,728	63,050
	<b>EU-19</b>	10.00 Business Climate (January)	0.82	0.73
	<b>EU-19:</b>	10.00 EC Economic Sentiment (January)	107.3	106.7
		- Industrial / Services / Consumer	1.1 / 12.0 / -7.9	0.6 / 11.2 / -7.9
	<b>GER:</b>	13.00 Preliminary HICP (January)	(+1.7%)	(+1.8%)
	<b>US:</b>	13.30 GDP (Q4: First Reading)*	+3.4% s.a.a.r.	+2.5%
	<b>US:</b>	15.00 Pending Home Sales Index (December)	-0.7% / 101.4	
	<b>US:</b>	19.00 Fed Interest Rate Announcement	2.25%-2.50%	2.25%-2.50%
	<b>US:</b>	19.30 Fed Press Conference		
	<b>JPN:</b>	23.50 Preliminary Industrial Output (December)	-1.0%	-0.4%
<b>Thurs 31st</b>	<b>UK:</b>	00.01 GfK Consumer Confidence (January)	-14	-15
	<b>CHINA:</b>	01.00 NBS Manufacturing PMI (January)	49.4	49.3
	<b>UK:</b>	07.00 Nationwide House Prices (January)	-0.7% (+0.5%)	+0.2% (+0.0%)
	<b>GER:</b>	07.00 Retail Sales (December)	+1.4%	-0.7%
	<b>FRA:</b>	07.45 Preliminary HICP (January)	(+1.9%)	(+1.4%)
	<b>SPA:</b>	08.00 GDP (Q4: First Reading)	+0.6% (+2.4%)	+0.6% (+2.3%)
	<b>GER:</b>	08.55 Unemployment (January)	5.0%	5.0%
	<b>ITA:</b>	08.55 GDP (Q4: First Reading)	-0.1% (+0.7%)	-0.1% (+0.3%)
	<b>ITA:</b>	09.00 Unemployment (December)	10.5%	
	<b>EU-19:</b>	10.00 GDP (Q4: First Reading)	+0.2% (+1.6%)	+0.2% (+1.2%)
	<b>EU-19:</b>	10.00 Unemployment (December)	7.9%	7.9%
	<b>US:</b>	13.30 Personal Income / Consumption (December)*	+0.2% / +0.4%	+0.4% / +0.3%
		- Core PCE Prices (December)*	(+1.9%)	(+1.9%)
	<b>US:</b>	13.30 Initial Jobless Claims (w/e 21st January)	199,000	211,000
	<b>US:</b>	13.30 Employment Cost Index (Q4)	+0.8% (+2.8%)	+0.8% (+3.0%)
	<b>JPN:</b>	23.30 Unemployment / Jobs: Applicants (December)	2.5% / 1.63	2.4% / 1.63
<b>Fri 1st</b>	<b>CHINA:</b>	01.45 Caixin Manufacturing PMI (January)	49.7	49.5
	<b>EU-19</b>	09.00 Final Markit Manufacturing PMI (January)	51.4 / 50.5 (p)	50.5
	<b>UK:</b>	09.30 CIPS/Markit Manufacturing PMI (January)	54.2	53.5
	<b>EU-19:</b>	10.00 Flash HICP (January)	(+1.6%)	(+1.4%)
		- Ex-Food & Energy	(+1.1%)	(+1.1%)
	<b>US:</b>	13.30 Non-farm Payrolls (January)	312,000	168,000
		- Unemployment	3.9%	3.9%
		- Average Earnings	(+3.2%)	(+3.2%)
	<b>US:</b>	14.45 Final Markit Manufacturing PMI (January)	53.8 / 54.9 (p)	54.9
	<b>US:</b>	15.00 Manufacturing ISM (January)	54.1	54.3
	<b>US:</b>	15.00 Final Michigan Consumer Sentiment (January)	90.7	90.7
	<b>US:</b>	20.30 Total Vehicle Sales (January)	17.55m	17.20m

\* Will not be published if the shutdown continues

◆ 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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