Weekly Market Brief

AIB Treasury Economic Research Unit

8th-12th January 2018

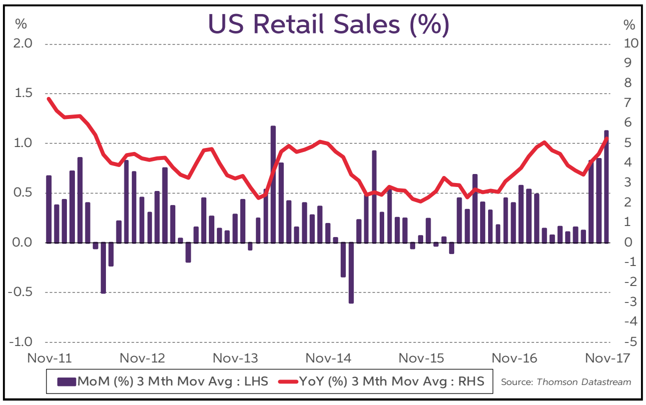
New Year, Same Tunes

- **The first week of trading in 2018 has seen a continuation of the themes evident in 2017,** with further gains by stock markets, bonds proving resilient while the dollar remains on the back foot. **The softer tone to the dollar since Christmas has seen EUR/USD rise very close to its 2017 high of $1.2092,** which it hit in September. Meanwhile, cable (GBP/USD) is changing hands at the $1.35-1.36 level, also near its 2017 high.

- **It is hard to pinpoint exactly what has been behind the slide of the dollar since Christmas.** A rally in commodity prices, improving data outside of the US and doubts about the extent of Fed tightening in 2018 are all being cited. **The dollar has also proved immune to good economic data out of the US, and clearly seems out of favour with markets.**

- **Traders need to be wary, though, as the recent changes to corporate tax rates in the US could spark dollar buying,** should American companies start to bring back cash from overseas. It is hard to put a figure on the size and timing of such flows, but they should benefit the dollar. **The US currency fell sharply over the 2002-2008 period, but a corporation tax amnesty in 2005 led to a temporary marked rise by the dollar that year.** Thus, we could be in for some volatility in forex markets in the months ahead, with investors inclined to take the US currency lower but significant dollar buying on repatriation flows also quite possible.

- **In the week ahead, December retail sales data are the main release of an overall light US schedule.** They are expected to have recorded another very healthy increase. Thus, we could see quarterly growth in sales of around 2.5%. However, broader indicators of personal consumption have been more modest, suggesting we are unlikely to see such a strong jump in spending in Q4 as the retail sales might suggest. Meantime, US CPI inflation is predicted to have held at 2.2% in December, while the core rate ticks up to 1.8%.



- **In the Eurozone, after last week's very strong, seven year high, Eurozone composite PMI for December, markets will be looking to the latest batch of European Commission sentiment indices, for further indications that the economy accelerated in Q4.** The headline economic sentiment index is expected to hit an over 17-year high in the month. At the same time, the EC measure of consumer sentiment also looks set to have reached a fresh 17-year high, continuing its recent upward trend. Eurozone retail sales are anticipated to have risen by over 1% in November, recovering from October's fall.

- As the Eurozone economy has seen a marked improvement in recent quarters, this has begun to have a more pronounced impact on the labour market. **Data out this week are forecast to show that the Eurozone unemployment rate declined further in November to 8.7% (was 9.7% in Nov'2016), representing its lowest level since January 2009.** A busy Eurozone calendar also includes industrial production (November) and the ECB 'Account' from the December meeting.

- Leading indicators of UK production (e.g. manufacturing PMI) have been firmer in recent months. Not surprisingly then, **UK industrial output is forecast to have recorded an encouraging pick-up in November.** Although, goods trade data for November look set to show that the deficit remains large, with the sharp fall in sterling following the Brexit vote having had little discernable benefit.

Interest Rate Forecasts

	Current	End Q1 2018	End Q2 2018	End Q3 2018
Fed Funds	1.375	1.625	1.625	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	1.2035	1.20	1.18	1.16
EUR/GBP	0.8872	0.89	0.88	0.87
EUR/JPY	136.25	137	136	135
GBP/USD	1.3560	1.35	1.34	1.33
USD/JPY	113.20	114	115	116

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 8th—Friday 12th January 2018

Date		*UK & Irish Time (GMT)*	*Release*	*Previous*	*Forecast*
This Week:	**Fed Speakers:**		Bostic, Williams, Rosengren (Monday); Kashkari (Tuesday); Evans, Bullard (Wednesday); Dudley (Thursday); Rosengren (Friday)		
	BoE Speakers:		**Carney** (Thursday)		
Mon 8th	**JPN:**		Coming-of-Age Day (Bank Holiday)		
	GER:	07.00	Industrial Orders (November)	+0.5%	+0.5%
	UK:	08.30	Halifax House Prices (December)	+0.5% (+3.9%)	+0.2% (+3.3%)
	ITA:	09.00	Unemployment (November)	11.1%	11.0%
	EU-19:	09.30	Sentix Index (January)	31.1	31.2
	EU-19:	10.00	Retail Sales (November)	-1.1% (+0.4%)	+1.3% (+2.2%)
	EU-19:	10.00	EC Business Climate (December)	1.49	1.51
	EU-19:	10.00	EC Economic Sentiment (December)	114.6	114.8
			- Industrial / Services / Consumer	8.2 / 16.3 / 0.5	8.4 / 16.5 / 0.5
Tue 9th	**UK:**	00.01	BRC Retail Sales (December)	(+0.6%)	
	GER:	07.00	Industrial Output (November)	-1.4%	+1.8%
	GER:	07.00	Trade Balance (November)	€19.9bn	€21.0bn
			- Exports	-0.4%	+1.2%
	FRA:	07.45	Trade Balance (November)	-€5.0bn	
			- Exports	+0.4%	
	EU-19:	10.00	Unemployment (November)	8.8%	8.7%
	US:	11.00	NFIB Small Business Optimism (December)	107.5	
Wed 10th	**FRA:**	07.45	Industrial Output (November)	+1.9%	-0.5%
	UK:	09.30	Industrial Output (November)	0.0% (+3.6%)	+0.3% (+1.8%)
			- Manufacturing	+0.1% (+3.9%)	+0.3% (+2.8%)
	UK:	09.30	Goods Trade Balance (November)	-$10.78bn	-$10.70bn
			- Non-EU	-$2.38bn	-$2.60bn
	US:	13.30	Import / Export Prices (December)	+0.7% / +0.5%	+0.5% / +0.4%
Thurs 11th	**ITA:**	10.00	Preliminary HICP (December)	(+1.0%)	
	EU-19:	10.00	Industrial Production (November)	+0.2% (+3.7%)	+0.8% (+3.2%)
	IRL:	***11.00***	***Residential Property Prices (November)***	***+0.5% (+12.1%)***	***+0.5% (+11.4%)***
	EU-19:	12.30	ECB Account from 13th-14th December Meeting Published		
	US:	13.30	Initial Jobless Claims (w/e 6th January)	250,000	248,000
	US:	13.30	PPI (December)	+0.4% (+3.1%)	+0.2% (+3.0%)
	US:	19.00	Federal Budget (December)	-$139.0bn	
Fri 12th	**CHINA:**	02.00	Trade Balance (December)	$40.21bn	$37.00bn
			- Exports	(+12.3%)	(+9.1%)
	JPN:	05.00	Economy Watchers Poll (December)	55.1	
	ITA:	09.00	Industrial Output (November)	+0.5%	+0.5%
	US:	13.30	CPI (December)	+0.4% (+2.2%)	+0.2% (+2.2%)
			- Ex-Food & Energy	+0.1% (+1.7%)	+0.2% (+1.8%)
	US:	13.30	Retail Sales (December)	+0.8%	+0.5%
			- Ex-Autos	+1.0%	+0.4%
			- Ex-Gas, Autos & Building Materials	+0.8%	+0.4%
	US:	15.00	Business Inventories (November)	-0.1%	+0.2%

♦ *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