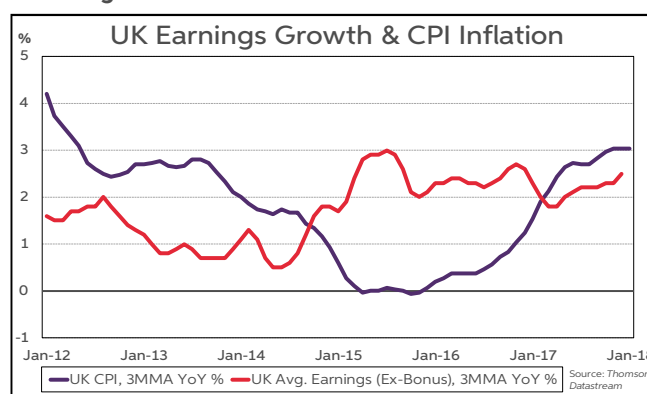


Breather for Bonds

- Bond markets have settled down in the past month after the sharp rise in yields between mid-December and mid-February.** Indeed, yields at the longer end of the market have moved lower recently, so the curve has flattened in a continuation of the trend evident in 2017. Markets have not altered their views on the outlook for interest rates recently so other factors have been creating a more supportive backdrop in fixed-income markets.
- Notably, risk aversion remains to the fore, with stock market sentiment still fragile and mounting concerns about a protectionist US trade policy,** as President Trump starts to levy tariffs on imports. Meanwhile, there are signs that growth has slowed somewhat since the start of the year, with data in the Eurozone coming in below expectations and weaker GDP figures now likely in the US and UK in Q1. Inflation data have remained soft, easing concerns about rising price pressures. All these factors have aided bond markets in recent weeks.
- The big picture, though, remains that we are moving slowly away from very accommodative monetary policies towards a rising rate environment.** The Fed and Bank of England meetings in the coming week are both likely to have an emphasis on rate tightening. There is strong technical support, though, for bond markets at or just above the recent highs in ten year yields, which we would expect to hold in the near-term.
- The FOMC is widely expected to increase rates by 25bps from 1.375% to 1.625% this week.** Thus, of greater consequence may be the updated interest rate projections. The most recent guidance, which came back in December, showed rates were expected to rise to 3.1% by end 2020. Markets, though, see rates rising to just 2.5%, with very little tightening predicted for 2019/20. At his recent semi-annual testimony, new Fed Chair Powell sounded hawkish, acknowledging some better than expected US data and the fiscal stimulus measures. He said this would “add some confidence to my view that inflation is moving up to target”. He concluded that the FOMC would take these “developments...into account”. **Thus, a more hawkish economic and rates outlook from the Fed seems possible this week, which may force markets to adopt a more aggressive rates outlook themselves.**
- In the UK, the BoE also meets. It is likely to keep rates on hold.** Although, the Bank indicated at its last meeting that it will be “appropriate” that monetary policy be altered to return inflation back to its 2% target within a shorter time horizon than the three years previously envisaged. **The MPC explicitly stated that rates would need to rise “somewhat earlier and by a somewhat greater degree” than previously envisaged.** This has given rise to the view that the BoE will hike rates again in the coming months, possibly as soon as its next meeting in May. A key indicator of this will be whether the vote to leave rates on hold this week remains unanimous or not. The market consensus is that we will see another 9:0 vote in favour of no policy change. **Markets will, thus, be closely analysing the meeting minutes for any indications on the timing of the next rate hike.**
- There is also a busy week of UK data.** Employment recovered in Q4, rising by 88k, after falling by 14k in Q3. It is expected to show a similar increase in the three months to January. The unemployment rate is forecast to have held at 4.4% in the same period. Meantime, average weekly earnings growth is predicted to have edged higher again, moving up to 2.6%. **CPI figures are expected to show inflation moved down to 2.8% in February, meaning the UK is moving closer to a return to real wage growth.** A healthy increase in retail sales in February is forecast.
- We get a raft of key survey data for March in the Eurozone. The composite PMI is anticipated to have remained strong, at around 57. Overall, the index is consistent with quarterly GDP growth of around 0.7% in Q1.** However, it must be noted that the PMIs have tended to overstate Eurozone growth slightly in recent quarters. Flash EC consumer sentiment is also due in the coming days, along with the German Ifo and French INSEE indices.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2018	2018	2018
Fed Funds	1.375	1.625	1.875	2.125
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	End Q2	End Q3
		2018	2018	2018
EUR/USD	1.2280	1.23	1.23	1.25
EUR/GBP	0.8820	0.89	0.89	0.88
EUR/JPY	130.26	132	132	133
GBP/USD	1.3920	1.38	1.38	1.42
USD/JPY	106.07	107	107	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	Mersch (Monday); Lautenschläger (Thursday)		
	Fed Speakers:	Bostic (Monday); Bostic, Kashkari (Friday)		
Mon 19th	IRL:	Market Holiday		
	ITA:	09.00 Industrial Output (January)	+1.6%	-0.7%
Tue 20th	GER:	07.00 PPI (February)	+0.5% (+2.1%)	+0.1% (+2.0%)
	UK:	09.30 CPI (February)	-0.5% (+3.0%)	+0.5% (+2.8%)
		- Ex-Food & Energy	-0.8% (+2.7%)	+0.6% (+2.5%)
	UK:	09.30 PPI Output (February)	+0.1% (+2.8%)	+0.1% (+2.7%)
		- Input	+0.7% (+4.7%)	-0.9% (+3.8%)
	GER:	10.00 ZEW Economic Sentiment (March)	17.8	13.0
	EU-19:	15.00 Flash EC Consumer Confidence (March)	0.1	0.0
Wed 21st	JPN:	Vernal Equinox (Market Holiday)		
	UK:	09.30 PSNB Ex-Interventions (February)	Feb'17: -£1.08bn	£2.00bn
	UK:	09.30 Employment (3mths to January)	88,000	85,000
		- ILO Unemployment	4.4%	4.4%
	UK:	09.30 Average Weekly Earnings (3mths to January)	(+2.5%)	(+2.6%)
		- Ex-Bonus	(+2.5%)	(+2.6%)
	UK:	11.00 CBI Industrial Orders Survey (March)	10	8
	US:	14.00 Existing Home Sales (February)	-3.2% / 5.38m s.a.a.r.	+0.9% / 5.43m
	US:	18.00 Fed Interest Rate Announcement	1.375%	1.625%
Thurs 22nd	EU-28:	EU Council Meeting (Continues on Friday)		
	FRA:	07.45 INSEE Business Climate (March)	112	111
	FRA:	08.00 Flash Markit Composite PMI (March)	57.3	56.9
	EU-19:	08.00 Current Account (January)	€29.9bn	
	GER:	08.30 Flash Markit Composite PMI (March)	57.6	57.1
	GER:	09.00 Ifo Business Climate (March)	115.4	114.7
	EU-19:	09.00 Flash Markit Composite PMI (March)	57.1	56.8
		- Manufacturing / Services	58.6 / 56.2	58.1 / 56.0
	UK:	09.30 Retail Sales (February)	+0.1% (+1.6%)	+0.3% (+1.5%)
	UK:	12.00 BoE Interest Rate Announcement	0.50%	0.50%
	US:	12.30 Initial Jobless Claims (w/e 17th March)	226,000	230,000
	US:	13.45 Flash Markit Manufacturing PMI (March)	55.3	55.5
	BEL:	14.00 NBB Leading Business Indicator (March)	1.9	1.2
	US:	14.45 Flash Markit Services PMI (March)	55.9	55.8
	JPN:	23.30 CPI (February)	(+1.4%)	
Fri 23rd	US:	12.30 Durable Goods (February)	-3.7%	+1.5%
	US:	14.00 New Homes Sales (February)	-7.8% / 0.59m s.a.a.r.	+3.9% / 0.62m

◆ 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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