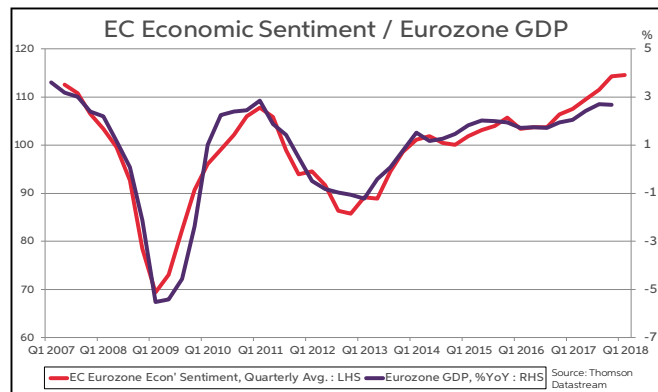


A Temporary Reprieve

- The past week provided another clear reminder for markets that global monetary policy has moved on to a firm rate tightening path after a decade of monetary easing.** The Fed lifted US rates by a further 25bps to a 1.5-1.75% target range and also raised its projected number of rate hikes for 2019 from two to three. It now sees US rates rising to 3.375% by end 2020 compared to 3.06% previously. Meanwhile, the Bank of England left the door wide open for a rate hike at its next meeting in May. Two MPC members voted for a rate hike at this week's meeting, with the Bank stating that it will be in a better position to make a fuller assessment of monetary policy at the May meeting. Finally, the Bank of China lifted a number of its short-term rates by a modest 5bps.
- Bond markets were unperturbed, though, as a flight-of-quality out of nervous equity markets continues to support the fixed income sector. **The latest bout of risk aversion in markets is being triggered by growing concerns about a possible global trade war after the US announced that it would impose 25% tariffs on a range of imports from China,** with Beijing indicating that it will take retaliatory measures. There are concerns that tariffs could hit certain US industries quite hard, as well as push up inflation. However, they are unlikely to derail the global recovery. Indeed, **the US administration is showing signs that it is willing to enter negotiations with other countries to avoid a trade war.**
- We expect increasingly hawkish central banks will re-emerge as the main theme for bond markets as the year progresses.** The US market, in particular, has a long way to go to price in the extent of policy tightening that is being signalled by the Fed. Bond markets have recovered some ground in recent weeks, with ten year bund and gilt yields falling by 25bps and ten year treasury yields down 10-15bps. However, we expect that this will prove a temporary rally and the uptrend in yields will reassert itself over the coming months as monetary policy continues to be tightened.
- Meantime, **the data and events schedule for the week ahead is light on both sides of the Atlantic. The latest batch of EC Eurozone sentiment indices are due and may garner some attention.** The headline Economic Sentiment index is expected to have moved lower in March, while remaining at a strong level, mirroring last week's flash PMIs. Overall, both the EC indices and the PMIs suggest that the Eurozone economy continued to grow at a solid pace in the first quarter of 2018.
- Of more interest, though, may be the preliminary readings of March HICP from Germany, France and Italy given markets increased focus on inflation and the related outlook for monetary policy.** Inflation in all three economies is expected to have picked up, most notably in Germany, where it is forecast to move up from 1.2% to 1.6%. Although, the ECB noted at its meeting earlier this month that "annual rates of headline inflation are likely to hover around 1.5% for the remainder of the year".
- Inflation data is also the key release in the US, with core-PCE, the Fed's preferred measure of price pressures, for February due out. It has held steady at 1.5% since October, below its 2% target, and it looks set to have remained at this rate in February.** Meantime, personal consumption is anticipated to have recorded another increase last month. The timelier Conference Board measure of consumer confidence is predicted to move up to a new 17-year high in March.
- Finally, the calendar in the UK is very sparse in the coming days, featuring no 'top-tier' releases.** Although, Brexit may remain on the minds of UK watchers following on from the progress in UK/EU talks in recent days. This included a framework for a post-Brexit transition deal to run to the end of 2020.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2018	2018	2018
Fed Funds	1.625	1.875	2.125	2.125
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	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 Q2	End Q3	End Q4
		2018	2018	2018
EUR/USD	1.2343	1.23	1.25	1.28
EUR/GBP	0.8716	0.88	0.87	0.87
EUR/JPY	129.78	130	131	132
GBP/USD	1.4161	1.40	1.44	1.47
USD/JPY	105.14	106	105	103

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Liikanen (Tuesday)		
	Fed Speakers:	Dudley, Mester (Monday); Bostic (Tuesday); Bostic (Wednesday); Harker (Thursday)		
Mon 26th	US:	13.30 Chicago Fed National Activity Index (February)	0.12	
Tue 27th	ITA:	09.00 ISTAT Business Confidence (March)	110.6	109.9
	ITA:	09.00 Consumer Confidence (March)	115.6	115.0
	EU-19:	09.00 M3 Money Supply (February)	(+4.6%)	(+4.6%)
	EU-19:	10.00 EC Business Climate (March)	1.48	1.40
	EU-19:	10.00 EC Economic Sentiment (March)	114.1	113.4
		- Industrial / Services / Consumer	8.0 / 17.5 / 0.1	7.0 / 16.5 / 0.1
	US:	14.00 Case-Shiller House Prices (January)	+0.6% (+6.3%)	+0.6% (+6.2%)
	US:	15.00 Consumer Confidence (March)	130.8	131.0
Wed 28th	GER:	08.00 Gfk Consumer Sentiment (April)	10.8	10.7
	FRA:	08.45 Consumer Confidence (March)	100	100
	UK:	11.00 CBI Distributive Trades Survey (March)	8	
	IRL:	11.00 Retail Sales (February)	-0.6% (+1.3%)	+1.0% (+2.9%)
	US:	13.30 GDP (Q4: Final Reading)	+2.5% s.a.a.r. (p)	2.6% s.a.a.r.
	US:	13.30 Advanced Goods Trade Balance (February)	-\$75.26bn	
	US:	15.00 Pending Home Sales Index (February)	-4.7% / 104.6	+2.3% / 107.0
Thurs 29th	UK:	06.00 Nationwide House Prices (March)	-0.3% (+2.2%)	
	GER:	09.00 Unemployment (March)	5.4%	5.3%
	UK:	09.30 BoE Mortgage Approvals (February)	67,480	65,650
	UK:	09.30 GDP (Q4: Final Reading)	+0.4% (+1.4%) (p)	+0.4% (+1.4%)
	GER:	13.00 Preliminary HICP (March)	(+1.2%)	(+1.6%)
	US:	13.30 Personal Income / Consumption (February)	+0.4% / +0.2%	+0.4% / +0.2%
		- Core-PCE Prices	(+1.5%)	(+1.5%)
	US:	13.30 Initial Jobless Claims (w/e 24th March)	229,000	230,000
	US:	15.00 Final Michigan Consumer Sentiment (March)	99.7 / 102.0 (p)	102.0
Fri 30th	IRL/UK/US/Most-EU:	Good Friday (Market Holiday)		
	UK:	00.01 Gfk Consumer Confidence (March)	-10	-10
	JPN:	00.30 Unemployment (February)	2.4%	2.6%
	JPN:	00.30 Jobs : Applicants (February)	1.59	1.60
	JPN:	00.50 Industrial Output (February)	-6.8%	1.60
	FRA:	08.45 Consumer Spending (February)	-1.9%	+5.0%
	FRA:	08.45 Preliminary HICP (March)	(+1.3%)	(+1.5%)
	ITA:	11.00 Preliminary HICP (March)	(+0.7%)	(+0.8%)

◆ 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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