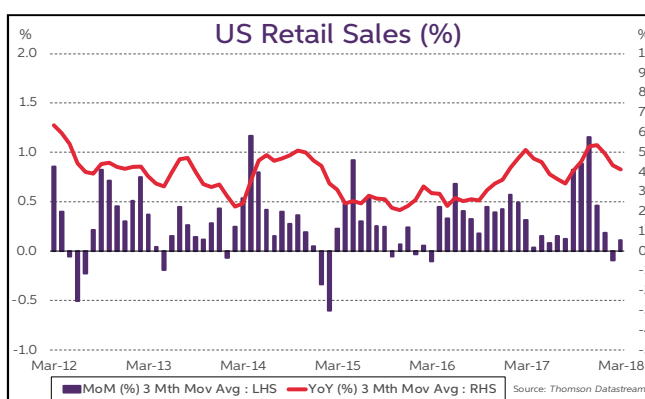


## Underinflated expectations

- Softer data, including on inflation, have provided some support for markets recently, as it has led to a more benign view on likely monetary tightening by central banks.** In the UK, weak data have seen expectations on the timing of the next BoE rate hike pushed out from May to later in the year, while markets are now pricing in three rate increases by end 2020 rather than four previously. In the Eurozone, weak inflation data suggest that the ECB could extend net asset purchases under its QE programme until the end of the year. As a result, ten year gilt yields have fallen to around 1.4%, while ten year bund yields have moved back down near the 0.5% level.
- In the US, softer than expected average earnings and CPI data for April have reinforced the strong support for the Treasury market at around the 3% yield level on ten year bonds. **It now looks less likely that the Fed will move to build an additional rate hike in 2018 when it updates its projections on interest rates at its next policy meeting in June.** All this has also helped create a more benign backdrop for stock markets in developed economies, which have regained ground over the past month.
- Recent developments highlight the importance of data for monetary policy at the present time. **Central banks are not under pressure to act pre-emptively and as both the BoE and ECB have noted, there is value in waiting to see how the data unfold.** Thus, they are inclined to keep all their options open. As the Fed and BoE demonstrated late last year, though, they are quite prepared to hike if the data support such a decision. Thus, **stronger data in the months ahead on both inflation and activity, which we see as being likely, would see monetary policy expectations harden again,** putting renewed pressure on bond markets in particular.
- In the week ahead, there will be plenty of attention on retail sales data for April in the US,** after a pullback in goods sales in Q1 weighed on growth in the quarter. Sales look set to have recorded a healthy increase in the month, building on March's recovery.
- In terms of the output side of the economy, **industrial production is predicted to have recorded another solid monthly increase in April.** The sector has been boosted in the last couple of months by an increase in production of cars, as manufacturers rebuild inventories after the Q4 2017 post-storm surge in sales, as well as by increased energy output as a result of colder than average temperatures. The timelier NY and Philly Fed indices are forecast to have held at encouraging levels in May. Housing data (starts, permits and HAHB index) are also due in the US this week.
- The labour market is in focus in the UK.** Employment is forecast to have increased by 130k in Q1, after rising by a more modest 88k in Q4 2017. At the same time, the unemployment rate is anticipated to have held at its rate from the three months to February of just 4.2%, its lowest rate since 1975. **A tightening UK labour market has shown signs of translating into upward pressure on wages recently.** Underlying earnings growth (ex-bonus) is forecast to edge up to 2.9% in the three months to March, from 2.8% in the three months to February. Although, overall earnings growth is expected to have edged back down to 2.7%. With inflation averaging 2.7% in Q1, it looks as if the UK is on the cusp of a return to real wage growth after 12 months of declining purchasing power.
- There is a light schedule in the Eurozone.** The first reading of German Q1 GDP is due, though, with quarterly growth of 0.4% expected, down from 0.6% in Q4 2017. At the same time, no change from the original estimate of +0.4% is expected from updated Eurozone Q1 GDP. The German ZEW for May will provide an early read of sentiment in the Eurozone's largest economy. **Finally, the first reading of Japanese Q1 GDP is predicted to show negative annualised growth of -0.2%.** This largely reflects temporary factors, with a return to growth in Q2 likely.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2018	2018	2018
Fed Funds	1.625	1.875	2.125	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	0.50	0.75	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 Q2	End Q3	End Q4
		2018	2018	2018
EUR/USD	1.1956	1.22	1.24	1.26
EUR/GBP	0.8813	0.87	0.86	0.85
EUR/JPY	130.58	132	131	131
GBP/USD	1.3566	1.40	1.44	1.48
USD/JPY	109.21	108	106	104

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Praet, Coeuré, Lautenschläger (Monday); <b>Draghi</b> , Praet, Coeuré (Wednesday); Lane (Thursday)		
	<b>Fed Speakers:</b>	Mester, Bullard (Monday); Williams (Tuesday); Bostic, Bullard (Wednesday); Kashkari, Kaplan (Thursday); Mester (Friday)		
	<b>BoE Speakers:</b>	<b>Carney</b> (Monday); Haldane (Thursday)		
<b>Mon 14th</b>	<b>JPN:</b> 00.50	Domestic Wholesale Prices (April)	(+2.1%)	(+2.0%)
<b>Tue 15th</b>	<b>CHINA:</b> 03.00	Industrial Output (April)	(+6.0%)	(+6.3%)
	<b>GER:</b> 07.00	GDP (Q1: First Reading)	+0.6%	+0.4%
	<b>FRA:</b> 07.45	Final HICP (April)	(+1.8%) (p)	(+1.8%)
	<b>UK:</b> 09.30	Employment (3 Months to March)	55,000	130,000
		- ILO Unemployment	4.2%	4.2%
	<b>UK:</b> 09.30	Average Weekly Earnings (3 Months to March)	(+2.8%)	(+2.7%)
		- Ex-Bonus	(+2.8%)	(+2.9%)
	<b>GER:</b> 10.00	ZEW Economic Sentiment (May)	-8.2	-8.2
	<b>EU-19:</b> 10.00	GDP (Q1: Second Reading)	+0.4% (+2.5%) (p)	+0.4% (+2.5%)
	<b>EU-19:</b> 10.00	Industrial Production (March)	-0.8% (+2.9%)	+0.6% (+3.7%)
	<b>US:</b> 13.30	Empire State/NY Fed Index (May)	15.8	16.0
	<b>US:</b> 13.30	Retail Sales (April)	+0.6%	+0.4%
		- Ex-Autos	+0.2%	+0.5%
		- Ex-Gas, Autos & Building Materials	+0.4%	+0.4%
	<b>US:</b> 15.00	Business Inventories (March)	+0.6%	+0.2%
	<b>US:</b> 15.00	NAHB Homebuilders' Sentiment (April)	69	69
<b>Wed 16th</b>	<b>JPN:</b> 00.50	GDP (Q1: First Reading)	+0.4% / +1.6% s.a.a.r.	0.0% / -0.2%
	<b>GER:</b> 07.00	Final HICP (April)	(+1.4%) (p)	(+1.4%)
	<b>ITA:</b> 10.00	Final HICP (April)	(+0.6%) (p)	(+0.6%)
	<b>EU-19:</b> 10.00	Final HICP (April)	(+1.2%) (p)	(+1.2%)
		- Ex-Food & Energy	(+1.1%) (p)	(+1.1%)
	<b>IRL:</b> 11.00	<b>Goods Trade Balance (March)</b>	<b>€4.0bn</b>	<b>€4.0bn</b>
	<b>US:</b> 13.30	Housing Starts (April)	+1.9% / 1.319m s.a.a.r.	+0.5% / 1.325m
		- Permits	+4.4% / 1.379m s.a.a.r.	-2.1% / 1.350m
	<b>US:</b> 14.15	Industrial Production (April)	+0.5%	+0.5%
		- Capacity Utilisation	78.0%	78.2%
<b>Thurs 17th</b>	<b>JPN:</b> 00.50	Core Machinery Orders (March)	(+2.4%)	(+0.3%)
	<b>FRA:</b> 06.30	ILO Unemployment (Q1)	8.9%	
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 12th April)	211,000	220,000
	<b>US:</b> 13.30	Philly Fed Index (May)	23.2	22.0
	<b>US:</b> 15.00	Leading Indicators Index (April)	+0.3% / 109.0	+0.3% / 109.3
<b>Fri 18th</b>	<b>JPN:</b> 00.30	CPI (April)	(+1.1%)	
	<b>GER:</b> 07.00	PPI (April)	(+1.9%)	(+1.8%)
	<b>EU-19:</b> 09.00	Current Account (March)	€35.1bn	

◆ 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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