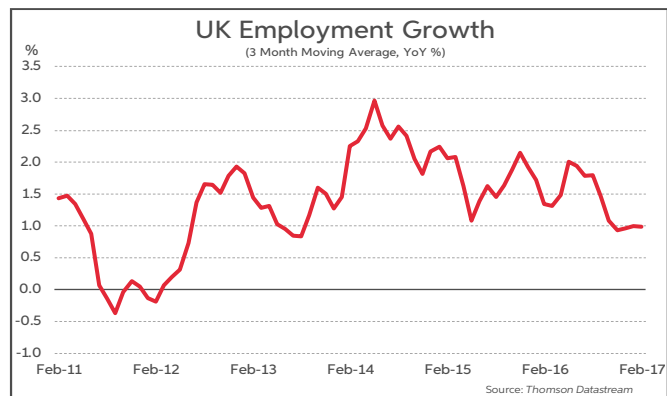


## Dead Calm

- Risk appetite has returned to markets in the past month**, as evidenced by the strong performance of stock markets, rise in bond yields and marked sell-off in the yen. The currency has lost around 7.5% against the euro and 5% versus the dollar in recent weeks, on abating risk aversion. Gold has also fallen in price. An easing of geopolitical risks, strong Q1 corporate earnings, solid growth by the world economy and continuing very accommodative monetary policies appear to be key reasons for the recent improvement in market sentiment.
- Markets, though, may be becoming too complacent.** The VIX index, a measure of market volatility, known as Wall St's 'fear gauge', has fallen to its lowest level in over a decade. This indicates that investors do not expect any major swings in stock markets, leaving them vulnerable to shocks. Meanwhile, despite the move up in yields recently, bond markets have remained very much range bound for the past six months. Furthermore, the EUR/USD rate is right in the heart of the narrow trading range that it has occupied for more than two years now.
- Traders and investors seem to believe that continuing abundant central bank liquidity should help insulate markets from sudden shocks**, with buyers emerging in any sell-offs. **Central banks, though, need careful watching, especially the Fed.** It is indicating that rates could rise to 3% by 2019, which markets are nowhere nearing pricing in. Hints from the Fed that it expects to begin shrinking its balance sheet (i.e. unwinding QE) later this year seems to have barely registered with markets. Meantime, some UK MPC members have warned that there are limits to the extent they can tolerate above target inflation. Meanwhile, the ECB may start to row back on its easing bias at its June Council meeting. Thus, **complacent is one thing markets should not be at present.**
- After a busy few weeks, dominated by central bank meetings and political events, the focus may shift back to macro data this week. In this regard, **we get a raft of key UK labour market releases, including Q1 employment. The forecast is for a very muted 10k increase in the quarter**, following on from Q4's 38k rise. This would mark a third consecutive quarter of slower jobs growth following the Brexit referendum at the end of Q2 last year. However, a simultaneous weakening in labour force growth has meant that the unemployment rate has remained low (forecast at 4.7% in Q1).
- Despite low unemployment, earnings growth has softened.** Year-on-year growth is forecast to have slowed to 2.4% in Q1, from 2.6%. The BoE notes that this may reflect reluctance on the part of employers to hike wages in the face of Brexit uncertainty, as well as an offsetting of higher external costs. CPI inflation has picked up, also reflecting higher import prices as a result of the weaker sterling. Inflation looks set to have moved up again in April to 2.6%, further eroding the real purchasing power of consumers. Retail sales declined by 1.4% in the first quarter, including a 1.8% fall in March. Sales are expected to have rebounded somewhat (+1%) in April.
- In the US, industrial production is forecast to edge up in April**, after mild weather in Q1 (impacted on utilities) meant output managed only modest growth of 0.4%. The timelier NY and Philly Fed indices for May look set to remain consistent with a modestly improved pace of growth. **We also get some updates from the US housing market in the coming days.** This includes housing starts for April and NAHB sentiment for May.
- A comparatively light Eurozone calendar includes flash EC consumer confidence for April.** The index rose to a 10-year high in March and **it is anticipated to have risen again at the start of Q2.** This suggests on-going improvement in the consumer sector. The German ZEW index provides an early look at economic sentiment in the Eurozone's largest economy in May. The calendar also includes the first reading of Italian Q1 GDP. A modest 0.2% rise is expected. **Finally, Japan GDP is expected to have posted another solid rise of 0.4% in Q1.**



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2017	2017	2017
Fed Funds	0.875	1.125	1.375	1.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.25	0.25	0.25	0.25
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
		2017	2017	2017
EUR/USD	1.0922	1.08	1.07	1.06
EUR/GBP	0.8472	0.83	0.84	0.85
EUR/JPY	123.84	124	124	125
GBP/USD	1.2889	1.30	1.27	1.25
USD/JPY	113.39	115	116	118

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>Fed Speakers:</b>	Mester (Thursday); Bullard (Friday)		
	<b>ECB Speakers:</b>	Praet (Monday); Cœuré (Tuesday); <b>Draghi</b> , Stournaras, Mersch, Lautenschläger (Thursday); Cœuré, Constâncio, Praet (Friday)		
	<b>BoE Speakers:</b>	Haldane (Wednesday)		
<b>Mon 15th</b>	<b>JPN:</b> 00.50	Domestic Wholesale Prices (April)	+0.2% (+1.4%)	-0.1% (+1.8%)
	<b>CHINA:</b> 03.00	Industrial Output (April)	(+7.6%)	(+7.1%)
	<b>ITA:</b> 09.00	Final HICP (April)	+0.8% (+2.0%) (p)	+0.8% (+2.0%)
	<b>US:</b> 13.30	NY Fed/Empire State Index (May)	5.2	8.0
	<b>US:</b> 15.00	NAHB Homebuilders' Sentiment (May)	68	68
<b>Tue 16th</b>	<b>FRA:</b> 07.45	Final HICP (April)	+0.7% (+1.4%) (p)	+0.7% (+1.4%)
	<b>ITA:</b> 09.00	GDP (Q1: First Reading)	+0.2% (+1.0%)	+0.2% (+0.8%)
	<b>UK:</b> 09.30	CPI (April)	+0.4% (+2.3%)	+0.4% (+2.6%)
		- Ex-Food & Energy	+0.4% (+1.8%)	+0.4% (+2.2%)
	<b>UK:</b> 09.30	PPI Output (April)	+0.4% (+3.6%)	+0.2% (+3.4%)
		- Input	+0.4% (+17.9%)	0.0% (+17.0%)
	<b>GER:</b> 10.00	ZEW Economic Sentiment (May)	19.5	22.0
	<b>EU-19:</b> 10.00	Trade Balance (March)	€17.8bn	
	<b>EU-19:</b> 10.00	GDP (Q1: Second Reading)	+0.5% (+1.7%) (p)	+0.5% (+1.7%)
	<b>IRL:</b> 11.00	<b>Goods Trade Balance (March)</b>	<b>+€4.7bn</b>	<b>+€4.5bn</b>
	<b>US:</b> 13.30	Housing Starts (April)	-6.8% / 1.215m s.a.a.r.	+3.7% / 1.260m
		- Building Permits	+4.2% / 1.267m s.a.a.r.	+0.6% / 1.274m
	<b>US:</b> 14.15	Industrial Output (April)	+0.5%	+0.3%
		- Capacity Utilisation	76.1%	76.3%
<b>Wed 17th</b>	<b>JPN:</b> 00.50	Core Machinery Orders (March)	+1.5% (+5.6%)	+2.1% (+0.6%)
	<b>UK:</b> 09.30	Employment (Q1)	+38,000	+10,000
		- ILO Unemployment	+4.8%	+4.7%
	<b>UK:</b> 09.30	Average Weekly Earnings (Q1)	(+2.6%)	(+2.4%)
		- Ex-Bonus	(+2.6%)	(+2.2%)
	<b>EU-19:</b> 10.00	Final HICP (April)	(+1.9%) (p)	(+1.9%)
		- Ex-Food & Energy	(+1.2%) (p)	(+1.2%)
<b>Thurs 18th</b>	<b>JPN:</b> 00.50	GDP (Q1: First Reading)	+0.3% / +1.2% s.a.a.r.	+0.4% / +1.7%
	<b>UK:</b> 09.30	Retail Sales (April)	-1.8% (+1.7%)	+1.0% (+2.0%)
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 13th May)	236,000	240,000
	<b>US:</b> 13.30	Philly Fed Index (May)	22.0	19.4
	<b>US:</b> 15.00	Leading Indicators Index (April)	+0.4%	+0.3%
<b>Fri 19th</b>	<b>FRA:</b> 06.30	ILO Unemployment (Q1)	10.0%	
	<b>GER:</b> 07.00	PPI (April)	0.0% (+3.1%)	+0.2% (+3.2%)
	<b>EU-19:</b> 09.00	Current Account (March)	€37.9bn	
	<b>UK:</b> 11.00	CBI Industrial Orders Index (May)	4	4
	<b>EU-19:</b> 15.00	Flash EC Consumer Confidence (April)	-3.60	-3.00

◆ 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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