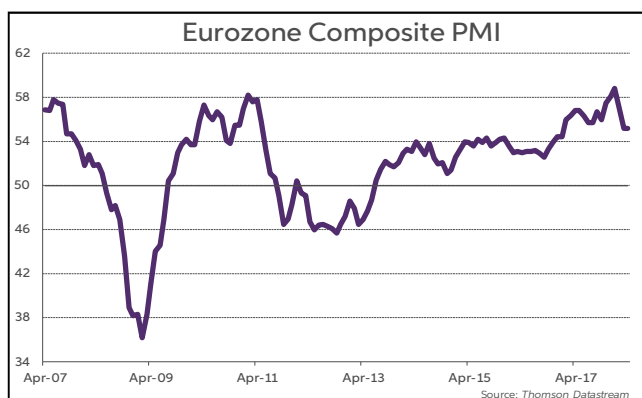


Slowdown melting away

- **The belief that the slowdown in growth evident in many economies during the first quarter was largely due to temporary factors, such as adverse weather, would seem to be borne out by the latest data trends.** Indeed, in many economies, activity was already rebounding in March, as evidenced by good industrial production figures in the US and Eurozone for that month. Survey data for April have generally been strong, with the J.P. Morgan Global Composite PMI picking up to 53.8 from 53.3 in March. Most real economic data have been upbeat in the US for April. Thus, it would not be a surprise to see US GDP growth pick up to a near 4% annualised rate in Q2.
- **The renewed strengthening of activity has seen the re-emergence of upward pressure on global bond yields.** This is most apparent in the US, where ten year Treasury yields have climbed to seven year highs of 3.1%. Meanwhile, market expectations have hardened further on Fed tightening, with futures contracts now pricing that the key fed funds rate will rise to 2.75% by 2020. Less than a year ago markets thought official US rates might rise to 1.5-1.6% by 2020. There has also been a 10-15bps increase in ten year yields in most European bond markets recently. Indeed, the rise might have been greater but for a flight-to-quality in to core European markets out of Italian bonds.
- **Despite increased geo-political risks and difficulties in some emerging economies, the outlook for the global economy remains favourable,** with activity set to be underpinned by low interest rates, a more expansionary stance to fiscal policy and rising employment and incomes. Strong growth is likely to maintain the pressure on bond markets, although the rise in yields should be curbed if inflation remains low, as is generally expected.
- **In the week ahead, we get a raft of important Eurozone survey releases for May.** The key Composite PMI performed better than expected in April, holding steady at 55.1. The index is forecast to be unchanged in May, suggesting that growth has broadly 'stabilised' after slowing during Q1. Flash EC Eurozone consumer sentiment also outperformed versus expectations in April, moving higher from an already strong level. It looks set to hold steady in May. At a national level, the German Ifo and French INSEE indices feature. **In terms of monetary policy, the ECB 'account' from its April meeting will be looked to for any insight into the likely timeline for the wind down of net asset purchases.**



- **Likewise, markets will be closely analysing Wednesday's May Fed minutes release,** as they look for greater detail on the policy outlook. The meeting statement was little changed. Futures contracts now indicate that markets believe the Fed may hike rates a total of four times this year, rather than the three hikes the FOMC is currently projecting. The minutes will be looked to for any indications that the FOMC's rate view is hardening. **Data-wise, the May flash PMIs are also the main release in the US.** Both the manufacturing and services indices are forecast to be little changed in the month, continuing to point to a solid pace of growth. In addition, the US calendar features durable goods orders, along with new and existing home sales figures (all April).
- **UK CPI data for April will warrant attention.** Softer than expected inflation has been a key factor in the BoE adopting a more cautious tone. Inflation is forecast to have held at 2.5%, just above the BoE's 2.4% projection. Meanwhile, retail sales are anticipated to have recorded a modest pick-up in April after March's 1.2% weather related drop. The CBI trades survey looks set to edge up further in May, suggesting sales may improve this month. Finally, the second reading of UK Q1 GDP will provide us with the first look at the expenditure based breakdown of growth, which will be looked to for detail on which sectors were weak in the quarter.

	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	1.1757	1.22	1.24	1.26
EUR/GBP	0.8730	0.87	0.86	0.85
EUR/JPY	130.39	132	131	131
GBP/USD	1.3461	1.40	1.44	1.48
USD/JPY	110.90	108	106	104

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Nowotny (Monday); Praet (Thursday); Liikanen (Friday)		
	Fed Speakers:	Bostic, Harker, Kashkari (Monday); Barkin, Kaplan, Dudley, Kaplan, Harker, Bostic (Thursday); Powell, Evans (Friday)		
	BoE Speakers:	Carney (Friday)		
Mon 21st	JPN: 00.50	Trade Balance (April) - Exports	¥797.0bn (+2.1%)	¥405.6bn (+8.1%)
	US: 13.30	Chicago Fed National Activity Index (April)	0.1	
Tue 22nd	UK: 09.30	PSNB Ex-Interventions (April)	April'17: £9.00bn	£8.50bn
	UK: 11.00	CBI Industrial Orders Survey (May)	4	4
Wed 23rd	FRA: 06.30	ILO Unemployment (Q1)	8.9%	
	GER: 07.00	GDP (Q1: Second Reading)	+0.3% (p)	+0.3%
	FRA: 08.00	Flash Markit Composite PMI (May)	56.9	56.4
	GER: 08.30	Flash Markit Composite PMI (May)	54.6	54.7
	EU-19: 09.00	Flash Markit Composite PMI (May) - Manufacturing / Services	55.1 56.2 / 54.7	55.1 56.0 / 54.7
	UK: 09.30	CPI (April) - Ex-Food & Energy	(+2.5%) (+2.3%)	(+2.5%) (+2.2%)
	UK: 09.30	PPI Output (April) - Input	(+2.4%) (+4.2%)	(+2.3%) (+5.8%)
	UK: 11.00	CBI Distributive Trades Survey (May)	-2	0
	US: 14.45	Flash Markit Manufacturing PMI (May) - Services	56.5 54.6	56.7 55.0
	US: 15.00	New Home Sales (April)	+4.0% / 0.694m s.a.a.r.	-1.3% / 0.679m
	EU-19: 15.00	Flash EC Consumer Confidence (May)	0.40	0.40
	US: 19.00	FOMC Minutes from 1st-2nd May Meeting Published		
Thurs 24th	GER: 07.00	GfK Consumer Sentiment (June)	10.8	10.8
	FRA: 07.45	INSEE Business Climate (May)	109	108
	UK: 09.30	Retail Sales (April)	-1.2% (+1.1%)	+0.4% (0.0%)
	US: 13.30	Initial Jobless Claims (w/e 18th May)	222,000	219,000
	EU-19: 13.30	ECB Account from 25th-26th April Meeting Published		
	BEL: 14.00	NBB Leading Business Indicator (May)	1.0	0.5
	US: 15.00	Existing Home Sales (April)	+1.1% / 5.60m s.a.a.r.	0.0% / 5.53m
Fri 25th	GER: 09.00	Ifo Business Climate (May)	102.1	101.9
	UK: 09.30	GDP (Q1: Second Reading)	+0.1% (+1.2%) (p)	+0.1% (+1.2%)
	US: 13.30	Durable Goods Orders (April)	+2.6%	-1.4%
	US: 15.00	Final Michigan Consumer Sentiment (May)	98.8 / 98.8 (p)	98.8

◆ 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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