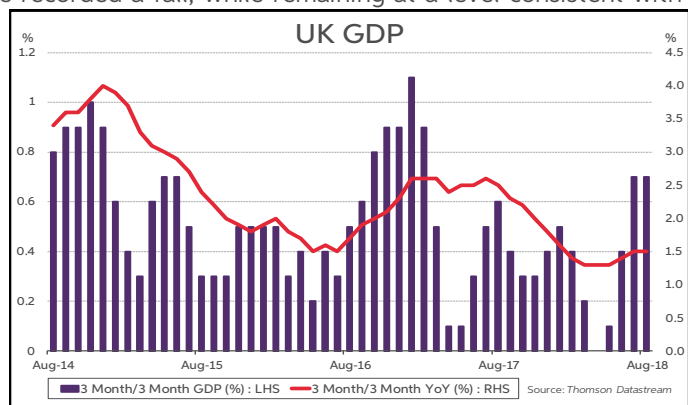


No Winter Blues...Yet

- The start of winter has seen investors adopt a less risk averse tone, after enduring tough trading conditions in October.** While sentiment still remains vulnerable, equity markets have posted gains over the past week of between 2-4%, aided in part by positive corporate earnings updates and conciliatory comments from both sides in the US/China trade dispute. Another notable feature over recent days has been the firmer tone to sterling. The currency has gained around 1% on the exchanges. It has been supported by the more positive nature of recent Brexit newsflow (suggesting progress is being made in the exit talks) and a hawkish tone to the November BoE meeting. In level terms, sterling's recent gains are reflected in EUR/GBP trading below the 88p level and GBP/USD up near the \$1.30 mark. Of course, the outlook for sterling for the remainder of this year, and into early next year, is still very much dependent on the outcome of the Brexit talks.
- Brexit is also a key determining factor for the BoE's policy outlook.** Last week's aforementioned meeting and Inflation Report highlighted the Bank's very clear tightening bias. Its assessment is that demand will grow over the next 2-3 years at a faster pace than the rate of supply growth. This scenario will likely result in increased domestic cost pressures (inflation still remains above its 2% target), thereby requiring further rate hikes to return inflation to its target. Futures contracts indicate that the market expects the next rate hike to occur around Q3 2019 and appears to be anticipating another hike in 2020. This would bring the bank rate up to 1.25%. However, if a soft Brexit materialises, then rates could rise by more than the market currently envisages. The underlying assumptions in the Inflation Report imply that the BoE thinks that this may be the case. Improved momentum in economic growth and wage growth rising above 3% also adds credence to this possibility.
- In the week ahead, it's the turn of the US to come under the spotlight from a monetary policy perspective with the Fed due to hold its November meeting.** The FOMC is on a steady hiking path, having raised rates by 25bps in September (3rd increase in 2018). However, no changes to monetary policy are expected this week as the Fed has guided that the next hike will occur in December. Therefore, the meeting statement will be looked to for further confirmation of this, as well as for an update on the FOMC's outlook for the economy. **Meanwhile, Tuesday's midterm elections will also likely attract market attention, with control of both the House of Representatives and the Senate up for contest.**
- Data-wise, in the US the release of the non-manufacturing ISM for October will provide a timely update on the key services sector.** The index is expected to have recorded a fall, while remaining at a level consistent with strong growth. The preliminary reading of consumer sentiment (Uni. of Michigan measure) for November is also due. It is forecast to have edged downwards, albeit from a high level.
- In the UK, the key release is the first reading of Q3 GDP.** Growth is expected to have picked up to 0.6% in the quarter, from 0.4% in Q2. This is in part due to the resurgence of activity in the construction sector, which was hampered in the early part of the year by poor weather, as well as the continued solid performance of services. The calendar also includes industrial production figures for September. Output is anticipated to have remained broadly flat in the month. Meanwhile, the goods-trade deficit is expected to have expanded in September. In terms of more timely updates on the economy, the Markit services PMI for October looks set to have dipped slightly. Combined with last week's disappointing manufacturing reading, this suggests the UK economy may have lost some momentum at the start of Q4.
- Elsewhere, the Eurozone macro schedule is very light.** Among the limited data releases are the readings of French and German industrial production for September. Output growth is expected to have increased slightly in Germany, while it is forecast to have declined in France. Retail sales figures for the currency bloc are also set to feature. The consensus is that sales rose marginally in the month.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2018	2019	2019
Fed Funds	2.125	2.375	2.625	2.875
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	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 Q4	End Q1	End Q2
		2018	2019	2019
EUR/USD	1.1409	1.15	1.17	1.19
EUR/GBP	0.8793	0.88	0.87	0.86
EUR/JPY	128.92	129	130	131
GBP/USD	1.2974	1.30	1.34	1.38
USD/JPY	112.97	112	111	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	Fed Speakers:	Williams (Friday)		
	ECB Speakers:	Coeure, de Guindos, Draghi , Praet, Smets (Monday); Coeure, Lautenschlager, Praet (Tuesday); Coeure (Thursday); Coeure (Friday)		
Mon 5th	CHINA: 01.45	Caixin Services PMI (October)	53.1	
	UK: 09.30	CIPS/Markit Services PMI (October)	53.9	53.3
	EU-19: 09.30	Sentix Index (November)	11.4	10.1
	US: 14.45	Final Markit Composite PMI (October)	54.8	54.8
		- Services	54.7	54.7
	US: 15.00	Non-Manufacturing ISM (October)	61.6	59.5
		- Business Activity	65.2	64.5
Tue 6th	US:	Midterm Elections		
	UK: 00.01	BRC Retail Sales (October)	(-0.2%)	
	AUS: 03.30	RBA Interest Rate Announcement	1.5%	1.5%
	GER: 07.00	Industrial Orders (September)	+2.0%	-0.6%
	FRA: 08.50	Final Markit Composite PMI (October)	54.3	54.3
	GER: 08.55	Final Markit Composite PMI (October)	52.7	52.7
	EU-19: 09.00	Final Markit Composite PMI (October)	52.7	52.7
		- Services	53.3	53.3
Wed 7th	JPN: 05.00	Leading Indicators Index (September)	0.6	
	GER: 07.00	Industrial Output (September)	-0.3%	+0.1%
	UK: 08.30	Halifax House Prices (October)	-1.4%	+0.3%
	ITA: 09.00	Retail Sales (September)	+0.7%	
	EU-19 09.00	Retail Sales (September)	-0.2% (+1.8%)	+0.1% (+0.9%)
	US: 20.00	Consumer Credit (September)	\$20.08bn	\$17.25bn
	JPN: 23.50	Core Machinery Orders (September)	(+12.6%)	(+7.7%)
Thurs 8th	UK: 00.01	RICS House Price Survey (October)	-2	-2
	GER: 07.00	Trade Balance (September)	€18.3bn	€18.1bn
		- Exports	-0.1%	+0.3%
	FRA: 07.45	Trade Balance (September)	-€5.6bn	-€6.2bn
		- Exports	-0.1%	
	IRL: 11.00	CPI (October)	-0.4% (+0.9%)	-0.2% (+0.8%)
	US: 13.30	Initial Jobless Claims (w/e 2nd November)	214,000	215,000
	US: 19.00	Fed Interest Rate Announcement	2.00-2.25%	2.00-2.25%
Fri 9th	FRA: 07.45	Industrial Output (September)	+0.3%	-0.3%
	UK: 09.30	Industrial Output (September)	+0.2% (+1.3%)	+0.1% (+0.5%)
		- Manufacturing	-0.2% (+1.3%)	+0.1% (+0.4%)
	UK: 09.30	Goods Trade Balance (September)	-£11.20bn	-£11.25bn
	UK: 09.30	GDP (Q3: First Reading)	+0.4% (+1.2%)	+0.6% (+1.5%)
	IRL: 11.00	New Dwelling Completions (Q3)	(+34.1%) / 4,419	(+32.1%) / 5,000
	US: 13.30	PPI (October)	(+2.6%)	(+2.6%)
	US: 15.00	Prelim' Michigan Consumer Sent' (November)	98.6	98.0

◆ 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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