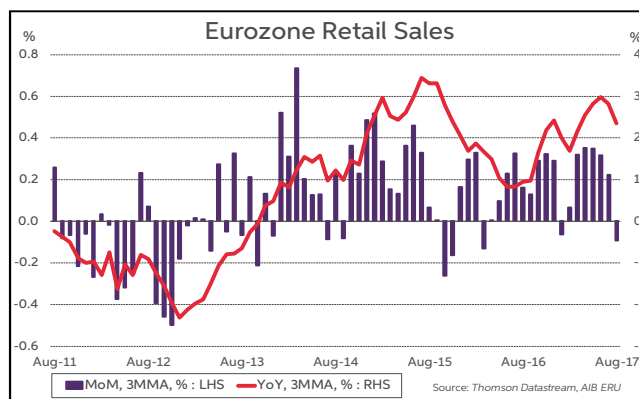


Toil and trouble for sterling

- Monetary policy remained to the fore of market attention last week, with the Bank of England, US Federal Reserve and Bank of Japan all holding their policy meetings.** It was the BoE meeting that generated the most headlines, with the Bank raising interest rates for the first time since 2007, while the other two central banks kept their respective policies unchanged. The BoE announcement that it was hiking its key rate by 25bps to 0.50%, which was expected, reverses the rate cut it implemented in the aftermath of last summer's Brexit referendum. It justified the move by stating that spare capacity in the economy had continued to erode, domestic inflationary pressures were showing signs of a pick-up and that it was becoming more apparent that the pace at which the economy could grow without generating inflationary pressures "had fallen".
- Despite the rate hike, market reaction saw sterling weaken and UK gilt yields fall, suggesting a less hawkish interpretation by markets to proceedings.** Sterling fell by 1.5-2% on the exchanges. In level terms, EUR/GBP traded up from 87.5p to 89p and GBP/USD fell from near \$1.33 to below \$1.31. Part of the reason for this may be due to the fact that the BoE removed the explicit reference that rates may have to rise by more than markets expect, as well as its strong emphasis on the risks/uncertainty Brexit poses to the economic outlook. The market is currently pricing in two additional rate hikes by end 2020. **Of course the extent of further BoE policy changes over the next 2-3 years will depend on how the economy evolves, which in turn is likely to be impacted by Brexit.** Leaving the EU will also have a significant bearing on sterling's performance. The currency looks to have entered an 87-92p range against the euro, with movement within this band over the coming months largely determined by the tone/progress on the Brexit talks.
- Following on from last week's very busy schedule, there is very little data of major significance due in the coming days.** In the UK, industrial output is forecast to have been broadly unchanged in September. This would indicate that production grew by 0.8% in Q3, slightly below the ONS estimate of 1% contained in the preliminary GDP release. Although, it is worth noting that production only accounts for c.15% of the economy. Meantime, **the goods trade deficit is expected to show some improvement in September, while holding close to August's all-time high.** This suggests that trade may have acted as a drag on UK growth in Q3. It also highlights the fact that the sharp depreciation in sterling has, thus far, not had much of a positive impact on UK goods exports.
- The main release in the Eurozone is September retail sales.** They are forecast to have recorded solid growth of 0.6% in the month. Falls in July/August mean quarterly sales look set to register just 0.1% growth, a slowdown versus Q2's solid 1% pick-up.
- At a national level, industrial output figures for the Eurozone's three largest economies—Germany, France and Italy—will be looked to ahead of the following week's Eurozone aggregate data. German and Italian output are expected to edge back, after jumping in August, while French production is predicted to rebound from August's decline to record a solid 0.7% rise. Meantime, the Sentix index will provide us with an early read on the economy in November.
- The US schedule is particularly light, in a holiday shortened week, with the preliminary Michigan measure of consumer sentiment the main release.** It is expected to have fallen slightly from October's 13-year high, while remaining at a very strong level. This points to US consumer spending remaining solid in the coming months.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2017	2018	2018
Fed Funds	1.125	1.375	1.375	1.625
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	0.50	0.50	0.50
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
		2017	2018	2018
EUR/USD	1.1617	1.16	1.15	1.14
EUR/GBP	0.8883	0.89	0.88	0.87
EUR/JPY	132.54	132	132	132
GBP/USD	1.3074	1.30	1.31	1.31
USD/JPY	114.09	114	115	116

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	Linde, Visco, Mersch, Praet (Monday); Lautenschlager, Mersch, Cœuré (Thursday); Mersch (Friday)		
	Fed Speakers:	Dudley (Monday)		
Mon 6th	GER:	07.00 Industrial Orders (September)	+3.6%	-1.5%
	FRA:	08.50 Final Markit Composite PMI (October)	57.5 (p)	57.5
	GER:	08.55 Final Markit Composite PMI (October)	56.9 (p)	56.9
	EU-19:	09.00 Final Markit Composite PMI (October)	55.9 (p)	55.9
		- Services	54.9 (p)	54.9
	EU-19:	09.30 Sentix Index (November)	29.7	30.9
	EU-19:	10.00 PPI (September)	+0.3% (+2.5%)	+0.4% (+2.8%)
Tue 7th	UK:	00.01 BRC Retail Sales (October)	(+1.9%)	
	GER:	07.00 Industrial Output (September)	+2.6%	-0.8%
	UK:	08.30 Halifax House Prices (October)	+0.8% (+4.0%)	
	EU-19:	10.00 Retail Sales (September)	-0.5% (+1.2%)	+0.6% (+2.7%)
Wed 8th	CHINA:	02.00 Trade Balance (October)	€28.47bn	
		- Exports	(+8.1%)	
	JPN:	05.00 Leading Indicators Index (September)	+1.6% / 107.2	
	FRA:	07.45 Trade Balance (September)	-€4.5bn	
		- Exports	+1.4%	
	IRL:	11.00 Residential Property Prices (September)	+2.0% (+12.2%)	+1.0% (+12.1%)
	JPN:	23.50 Core Machinery Orders (September)	(+4.4%)	(+1.9%)
Thurs 9th	UK:	00.01 RICS House Price Survey (October)	6	4
	JPN:	05.00 Economy Watchers' Poll (October)	51.3	
	GER:	07.00 Trade Balance (September)	€21.6bn	€21.1bn
		- Exports	+3.1%	-1.1%
	US:	12.30 Initial Jobless Claims (w/e 4th November)	229,000	231,000
Fri 10th	US:	Veterans Day (Market Holiday)		
	FRA:	07.45 Industrial Output (September)	-0.3%	+0.7%
	FRA:	07.45 Non-Farm Payrolls (Q3)	+0.4%	
	ITA:	09.00 Industrial Output (September)	+1.2% (+5.7%)	-0.1% (+4.9%)
	UK:	09.30 Industrial Output (September)	+0.2% (+1.6%)	+0.2% (+1.8%)
		- Manufacturing	+0.4% (+2.8%)	+0.3% (+2.3%)
	UK:	09.30 Goods Trade Balance (September)	-£14.25bn	-£12.85bn
		- Non-EU	-£5.84bn	
	US:	15.00 Prelim' Michigan Consumer Sent' (November)	100.7	100.5

◆ 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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