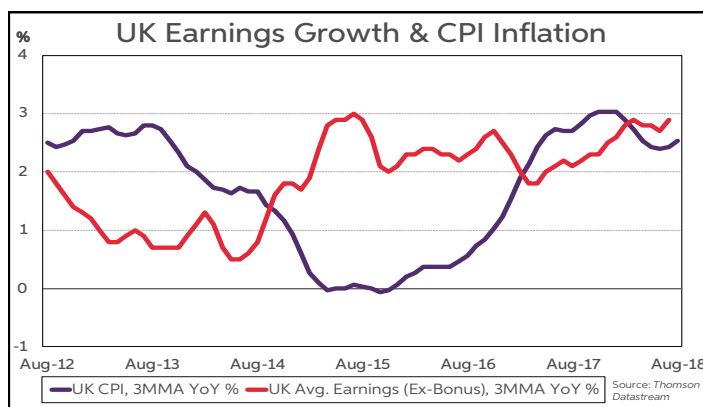


Ain't No Sunshine

- **With a good sense of timing, the IMF warned this week in its global financial stability update that risks to the financial system have risen this year.** It cited concerns that the easy financial conditions in place for much of the last ten years are contributing to a build-up of vulnerabilities, such as high debt levels and stretched asset valuations. The IMF emphasised in particular that markets appear “complacent” about the risk of a sharp tightening in financial conditions, noting that monetary policy could be a potential trigger for such an event. We have already seen some evidence of this a few months back. The steady tightening of rates by the US Fed and the associated rise in the dollar impacted emerging markets, including their currencies.
- **In the past week, with the US ten year treasury yield rising to its highest level in seven years, the recent sell-off in bond markets spilled over into equity markets.** Concerns over rising interest rates combined with worries over the impact that global trade tensions could have on corporate earnings has seen Wall Street suffer heavy losses, with the S&P 500 down by around 4% since Monday’s open.
- **However, despite the widespread risk averse tone to global equity markets in recent days, the action on currency markets has been relatively muted.** There has been some mild dollar weakness and some modest gains for the yen. Meanwhile, EUR/GBP has been mostly confined to a narrow range within the 87-88p band. However the week ahead does entail some event risk for sterling and the euro with the EU Leaders’ Summit on Brexit as well as the Italian Budget submission to the European Commission.
- **Data-wise there is a very busy schedule this week in the UK.** This includes a raft of labour market data for the 3 months to August. It is anticipated that employment will rise by just 20,000; weak growth may partly reflect a lack of available workers as the number of job vacancies is at a record high. The relatively unchanged size of the UK labour force means the unemployment rate looks set to have held at just 4.0%. Meantime, it is envisaged that the rate of growth of underlying earnings has remained at 2.9% in the 3 months to August.

- **UK CPI figures for September are also set to feature.** Headline inflation is forecast to have moderated slightly to 2.6%, from 2.7% in August, while the consensus is that the core rate edged down to 2.0%. The decline in price pressures will provide a welcome boost to real wages. Finally, retail sales figures for September are also due. Following a strong performance in recent months, aided by warm weather, they are expected to have fallen by 0.2% in the month, although the year-on-year growth rate will remain strongly in positive territory.



- **In the US, retail sales for September are the main release.** A high level of consumer confidence, buoyed by the on-going strength of the labour market, as well as the timing of the Labour Day weekend is expected to result in a boost in sales of 0.6% in month-on-month terms. Meanwhile, the consensus is that industrial production recorded an increase of 0.2% in September, having risen by 0.4% in the previous month. Housing starts for September and NAHB homebuilder sentiment for October are also due.
- **Elsewhere, there is a very barren data schedule in the Eurozone.** Meantime, the first reading of Chinese GDP for Q3 will be looked to for indications of any initial impact from the recent escalation in trade tensions with their main trading partner, the US. The forecast is for growth to have edged down to 6.6%, from 6.7% in the previous quarter. However, the usual caveat applies when dealing with ‘official’ figures from China.

	Interest Rate Forecasts			
	Current	End Q4 2018	End Q1 2019	End Q2 2019
Fed Funds	1.875	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 2018	End Q1 2019	End Q2 2019
EUR/USD	1.1552	1.19	1.20	1.21
EUR/GBP	0.8768	0.89	0.88	0.87
EUR/JPY	129.57	133	133	133
GBP/USD	1.3173	1.34	1.36	1.39
USD/JPY	112.14	112	111	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	BoE Speakers:	Carney (Friday)		
	ECB Speakers:	de Guindos (Monday); Praet (Wednesday); Coeure, Draghi (Thursday)		
	Fed Speakers:	Quarles (Thursday); Bostic (Friday)		
	EU-28:	EU Leaders' Summit (Thursday to Friday)		
Mon 15th	IRL:	11.00 Goods Trade Balance (August)	€3.9bn	€4.0bn
	US:	13.30 NY Fed / Empire State Index (October)	19	20
	US:	13.30 Retail Sales (September)	+0.1%	+0.6%
		- Ex-Autos	+0.3%	+0.4%
		- Ex-Gas, Autos & Building Materials	+0.1%	+0.3%
Tue 16th	UK:	09.30 ILO Unemployment (3 Months to August)	4.0%	4.0%
		- Employment	+3,000	+20,000
	UK:	09.30 Average Weekly Earnings (3 Months to August)	(+2.6%)	(+2.6%)
		- Ex-Bonus	(+2.9%)	(+2.9%)
	GER:	10.00 ZEW Economic Sentiment (October)	-10.6	-12.5
	ITA:	10.00 Final HICP (September)	(+1.6%)	(+1.6%)
	US:	14.15 Industrial Production (September)	+0.4%	+0.2%
		- Capacity Utilisation	78.1%	78.2%
	US:	15.00 NAHB Homebuilders Sentiment (October)	67	67
Wed 17th	UK:	09.30 CPI (September)	(+2.7%)	(+2.6%)
		- Ex-Food & Energy	(+2.1%)	(+2.0%)
	UK:	09.30 PPI Output (September)	(+2.9%)	(+2.9%)
		- Input	(+8.7%)	(+9.2%)
	EU-19	10.00 Final HICP (September)	(+2.1%) (p)	(+2.1%)
		- Ex-Food & Energy	(+1.1%)	(+1.1%)
	US:	13.30 Housing Starts (September)	+9.2% / 1.282m s.a.a.r.	-4.8% / 1.22m
		- Building Permits	-4.1% / 1.249m s.a.a.r.	+2.5% / 1.28m
	US:	19.00 FOMC Meeting Minutes		
Thurs 18th	JPN:	00.30 Trade Balance (September)	-¥444.6bn	-¥50bn
		- Exports	(+6.6%)	(+1.9%)
	UK:	09.30 Retail Sales (September)	+0.3% (+3.3%)	-0.2% (+3.7%)
	US:	13.30 Initial Jobless Claims (w/e 12th October)	214,000	215,000
	US:	13.30 Philly Fed Index (October)	22.9	21.0
Fri 19th	JPN:	00.30 CPI (September)	(+1.3%)	(+1.4%)
	CHINA:	03.00 GDP (Q3)	(+6.7%)	(+6.6%)
	CHINA:	03.00 Industrial Output (September)	(+6.1%)	(+6.0%)
	EU-19:	09.00 Current Account (August)	€21.3bn	
	UK:	09.30 PSNB Ex-Interventions (September)	Sept'17: £5.01bn	£5.20bn
	US:	13.30 Existing Home Sales (September)	+0.0% / 5.34m s.a.a.r.	-0.7% / 5.30m

◆ 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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