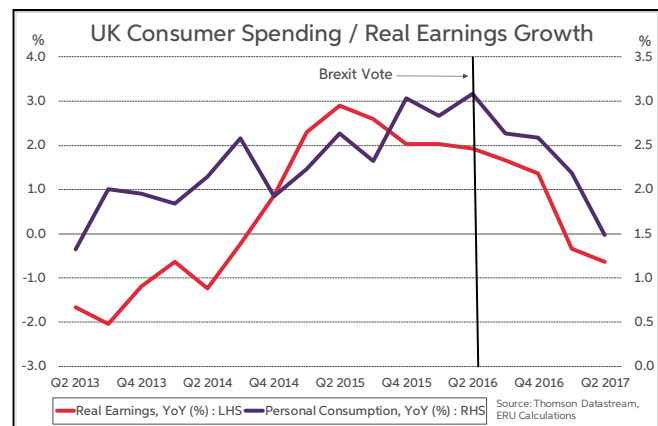


## Hotel California

- **It has been a volatile few days for sterling as it responded to the ebb and flow of information on Brexit.** The EU Chief Brexit Negotiator, Michel Barnier, indicated that “sufficient progress” has not been made in Stage 1 of the Brexit talks to allow them to progress on to Stages 2 and 3, covering future trade relationships and transition arrangements. He noted in particular that the talks have hit a disturbing “impasse” on the issue of the UK’s future budget contributions or so-called ‘divorce bill’.
- Thus, **the EU Summit which starts on Wednesday evening, will not be giving the green light to start trade talks with the UK.** However, the indications are that the tone from EU leaders will be positive and they may ask Mr Barnier to start making preparations for talks with the UK on trade and a transition phase, without actually beginning the talks with the UK on them.
- Such an outcome would fuel speculation that enough progress will have been made on Stage 1 of the negotiations by the time of the next EU Summit in December to allow EU leaders to agree that formal talks can begin with the UK on trade and a transition period. This should help clear the road towards a soft Brexit for the UK in 2019, meaning that, in effect, it will continue to be part of the EU Single Market and Customs Union until an EU-UK trade deal is concluded. It all sounds a bit like Hotel California where “you can check out anytime you like, but you can never leave!”. **The EU leaders’ summit aside, the Eurozone schedule is very light this week.**

- **There is, however, a very busy schedule of macro data due in the UK.** This includes a raft of labour market updates for the three months to August. While UK growth has slowed in 2017, employment growth has generally maintained a solid pace. A 155k increase is expected this week, slightly softer than the 182k rise recorded in the three months to July. **The unemployment rate looks set to have held at 4.3%, its lowest level since 1975.** This partly reflects a slowdown in UK labour force growth. This tallies with ONS figures which show more EU citizens leaving the UK and fewer coming to live there since the Brexit vote.



- **Despite the low level of unemployment, UK wage growth has been subdued.** This may reflect increased uncertainty amongst employers, as well as an attempt to control costs due to the sharp sterling depreciation. Average earnings are forecast to have grown by 2.1% year-on-year. Evidence that employers are facing higher costs comes from PPI data. Output price inflation is expected at 3.3% in September, far lower than input price inflation of 8.3%. Producers are passing some of their higher costs onto consumers. **CPI inflation is forecast to edge up to 3% in September, the point at which the BoE thinks price pressures will peak.** Despite squeezed incomes in the UK, retail sales have regained some momentum since the spring, although they are expected to fall in September following a strong rise in August. Overall UK consumer spending, of which retail sales is just one part, has slowed in each of the four quarters since last June’s Brexit vote.
- **In the US, industrial production looks set to edge up by 0.2% in September** after August’s 0.9% decline. This suggests that overall growth in output for Q3 could be broadly flat, following on from Q2’s solid 1.2% increase. The timelier NY and Philly Fed indices are expected to remain at very encouraging levels. We also get a number of updates from the housing market this week. Existing home sales fell in August, showing some hurricane related impact. A further fall in sales is forecast for September. Housing starts for September and NAHB sentiment for October also feature. **Finally, Chinese Q3 GDP is due. Year-on-year growth in the world’s second largest economy is forecast to slow slightly, while remaining very strong at 6.8%.**

	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	0.25	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	1.1864	1.18	1.17	1.16
EUR/GBP	0.8908	0.90	0.89	0.88
EUR/JPY	132.66	132	132	132
GBP/USD	1.3318	1.31	1.31	1.32
USD/JPY	111.80	112	113	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lautenschläger (Monday); Constâncio, Praet (Tuesday); <b>Draghi</b> , Cœuré (Wednesday)		
	<b>Fed Speakers:</b>	Dudley, Kaplan, Fischer (Wednesday)		
<b>Mon 16th</b>	<b>EU-19:</b>	10.00 Eurozone Trade Balance (August)	€23.2bn	
	<b>IRL:</b>	<b>11.00 Goods Trade Balance (August)</b>	<b>€4.2bn</b>	<b>€5.0bn</b>
	<b>US:</b>	13.30 NY Fed/Empire State Index (October)	24.40	20.45
<b>Tue 17th</b>	<b>UK:</b>	09.30 CPI (September)	+0.6% (+2.9%)	+0.3% (+3.0%)
		- Ex-Food & Energy	+0.6% (+2.7%)	+0.3% (+2.8%)
	<b>UK:</b>	09.30 PPI Output (September)	+0.4% (+3.4%)	+0.3% (+3.3%)
		- Input	+1.6% (+7.6%)	+1.2% (+8.3%)
	<b>GER:</b>	10.00 ZEW Economic Sentiment (October)	17.0	20.0
	<b>EU-19:</b>	11.00 Final HICP (September)	(+1.5%) (p)	(+1.5%)
		- Ex-Food & Energy	(+1.3%) (p)	(+1.3%)
	<b>US:</b>	13.30 Import / Export Prices (September)	+0.6% / +0.6%	+0.6% / +0.4%
	<b>US:</b>	14.15 Industrial Production (September)	-0.9%	+0.2%
		- Capacity Utilisation	76.1%	76.2%
	<b>US:</b>	15.00 NAHB Homebuilders' Sentiment (October)	64	64
<b>Wed 18th</b>	<b>EU-28:</b>	EU Leaders' Summit (continues to Friday 20th)		
	<b>UK:</b>	09.30 Employment (3 Months to August)	182,000	155,000
		- ILO Unemployment	4.3%	4.3%
	<b>UK:</b>	09.30 Average Weekly Earnings (3 Month to August)	(+2.1%)	(+2.1%)
		- Ex-Bonus	(+2.1%)	(+2.0%)
	<b>US:</b>	13.30 Housing Starts (September)	-0.8% / 1.180m s.a.a.r.	-0.4% / 1.175m
		- Building Permits	+3.4% / 1.272m s.a.a.r.	-1.7% / 1.250m
	<b>US:</b>	19.00 Fed Beige Book Published		
<b>Thurs 19th</b>	<b>JPN:</b>	00.50 Trade Balance (September)	¥113.6bn	¥559.8bn
		- Exports	(+18.1%)	(+14.9%)
	<b>CHINA:</b>	03.00 Industrial Output (September)	(+6.0%)	(+6.2%)
	<b>CHINA:</b>	03.00 GDP (Q3)	+1.7% (+6.9%)	+1.7% (+6.8%)
	<b>UK:</b>	09.30 Retail Sales (September)	+1.0% (+2.4%)	-0.2% (+2.0%)
	<b>US:</b>	13.30 Initial Jobless Claims (w/e 14th October)	243,000	245,000
	<b>US:</b>	13.30 Philly Fed Index (October)	23.8	23.7
<b>Fri 20th</b>	<b>GER:</b>	07.00 PPI (September)	+0.2% (+2.6%)	+0.1% (+2.9%)
	<b>EU-19:</b>	09.00 Current Account (August)	€25.1bn	
	<b>UK:</b>	09.30 PSNB Ex-Interventions (September)	Sept'16: £6.54bn	£6.70bn
	<b>US:</b>	15.00 Existing Home Sales (September)	-1.7% / 5.35m s.a.a.r.	-1.0% / 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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