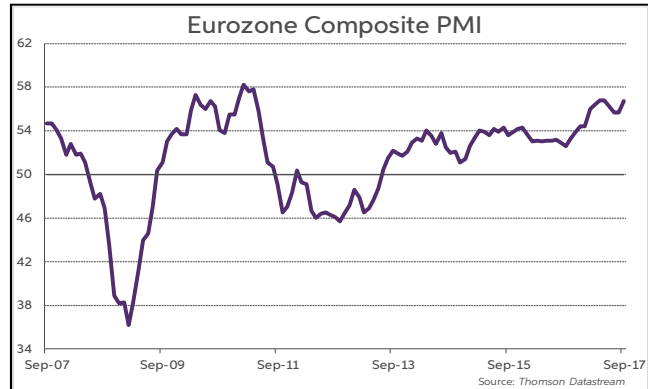


Testing times ahead

- Global growth is picking up, we are moving closer to a marked loosening of fiscal policy in the US, stock markets continue to storm ahead, oil prices are on the rise again, while some central banks have started to tighten policy.** However, bond markets don't appear too bothered, with ten year yields in the main markets largely range bound since the spring. Bond trading, though, has been volatile within these trading ranges, with numerous short-term mini rallies and sell-offs as the market struggles for direction.
- It could prove quite a challenge for fixed-income markets to hold their recent ranges over the next couple of months.** Rate hikes are expected in the US and UK, while the ECB is set to announce a scaling back of its asset purchases from January. One can argue that this should be largely discounted by markets, but it will serve as a reminder of which way the wind is blowing and that it is not going to change direction anytime soon. We would see the top of recent yield ranges coming under pressure, which in the ten year area stands at 2.4% for Treasuries, 0.5% on bunds and 1.4% for gilts. **The Treasury market looks the most vulnerable, with the Fed on a clear tightening path**, an increasing likelihood of tax cuts and the economy looking like it is gaining momentum. An upward move in US yields can be expected to spill over into other bond markets.
- In the week ahead, though, the primary focus will be on the ECB meeting.** No changes to interest rates are anticipated. However, **the Governing Council is expected to announce the aforementioned reduction in its monthly asset purchases**, while extending out the end point of the programme. The 'account' of the ECB's September meeting highlighted the "solid and broad-based" improvement in economic activity, while noting that growth was "becoming increasingly self-sustaining". The text also stated that "tentative signs of reflationary forces [are] slowly taking hold". Thus, it was concluded that "conditions were increasingly falling into place that would allow the intensity of monetary policy accommodation to be adapted and would provide an opportunity to scale back the Eurosystem's net asset purchases". **We expect that the ECB will reduce its monthly purchases from €60bn to €30-40bn, holding it at that pace for 6-9 months.**
- The Eurozone data schedule includes a number of important October survey releases.** The composite flash PMI is forecast to edge back to 56.6, which would still be slightly above its Q3 average of 56. The EC measure of Eurozone consumer confidence looks set to move up to a 16-year high. At a national level, the German Ifo is forecast to stay close to its highest level since it began in 1991. The French INSEE, Italian ISTAT and Belgian NBB indices will feature too. Overall, the data are predicted to show that the economy began Q4 on a strong footing.
- PMI indices for October are also due in the US.** However, **the main release will be Friday's first reading of Q3 GDP.** Growth recovered in Q2, rising by 3.1% on an annualised basis, from Q1's soft 1.2% print. Another solid performance is anticipated in Q3, with a forecast of 2.6%. It will be interesting to see if business investment has continued to expand at a very encouraging pace. Subdued growth in personal consumption in July/August suggests the sector may be the main reason for the expected less strong performance, with the fallout from the extreme weather conditions hard to predict.
- Q3 GDP is also the main release in the UK.** Data in the quarter have generally suggested that the economy continued to grow at a modest pace, with the composite PMI averaging 54.1 versus 54.7 in Q2. **GDP is forecast to have recorded another 0.3% quarterly rise.** We will have to wait until November 23rd before we get the detailed expenditure based breakdown of GDP, meaning this week's data will be of limited use in assessing the impact the Brexit vote is having on the underlying economy, with weakening consumption a particular concern.



	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	1.1791	1.18	1.17	1.16
EUR/GBP	0.8954	0.89	0.88	0.87
EUR/JPY	133.70	132	132	132
GBP/USD	1.3167	1.33	1.33	1.33
USD/JPY	113.39	112	113	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Praet (Monday); Praet (Friday)		
	Fed Speakers:	Kashkari (Thursday)		
Mon 23rd	UK:	11.00 CBI Industrial Orders Index (October)	7	13
	US:	13.30 Chicago Fed National Activity Index (September)	-0.31	
	EU-19:	15.00 Flash EC Consumer Confidence (October)	-1.2	-1.0
Tue 24th	FRA:	07.45 INSEE Business Climate (October)	110	110
	FRA:	08.00 Flash Markit Composite PMI (October)	57.1	57.0
	GER:	08.30 Flash Markit Composite PMI (October)	57.7	57.6
	EU-19:	09.00 Flash Markit Composite PMI (October)	56.7	56.6
		- Manufacturing / Services	58.1 / 55.8	57.8 / 55.9
	US:	14.45 Flash Markit Manufacturing PMI (October)	53.1	53.6
		- Services	55.3	55.7
	BEL:	15.00 NBB Leading Business Indicator (October)	-3.5	-3.0
Wed 25th	GER:	09.00 Ifo Business Climate (October)	115.2	115.2
	UK:	09.30 GDP (Q3: First Reading)	+0.3% (+1.5%)	+0.3% (+1.4%)
	US:	13.30 Durable Goods Orders (September)	+2.0%	+1.1%
	US:	15.00 New Homes Sales (September)	-3.4% / 0.560m s.a.a.r.	-1.0% / 0.560m
	CAN:	15.00 BoC Interest Rate Announcement	1.00%	1.00%
Thurs 26th	GER:	07.00 Gfk Consumer Sentiment (November)	10.8	10.8
	ITA:	09.00 ISTAT Business Confidence (October)	110.4	110.0
	ITA:	09.00 Consumer Confidence (October)	115.5	114.9
	EU-19:	10.00 M3 Money Supply (September)	(+5.0%)	(+5.0%)
	UK:	11.00 CBI Distributive Trades Index (October)	42	
	EU-19:	12.45 ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.40%	-0.40%
	EU-19:	13.30 ECB Press Conference		
	US:	13.30 Goods Trade Balance (September)	-\$63.32bn	
	US:	13.30 Initial Jobless Claims (w/e 21st October)	222,000	223,000
	US:	15.00 Pending Home Sales Index (September)	-2.6% / 106.3	
Fri 27th	JPN:	00.30 CPI: Nationwide (September) / Tokyo (October)	(+0.7%) / (+0.5%)	
	FRA:	07.45 Consumer Confidence (October)	101	102
	UK:	07.00 Nationwide House Prices (October)	+0.2% (+2.0%)	
	IRL:	11.00 Retail Sales (September)	-4.2% (+4.7%)	-1.0% (+4.2%)
	US:	13.30 GDP (Q3: First Reading)	+3.1% s.a.a.r.	+2.6%
	US:	15.00 Final Michigan Consumer Sentiment (October)	95.1 / 101.1 (p)	101.0

◆ 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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