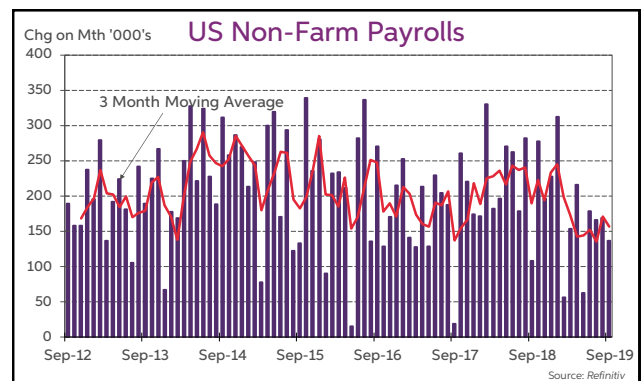


Hope Trumps Data

- Markets seem to be adopting something of a more optimistic view on the economic outlook in recent weeks.** There has been an improvement in risk appetite as evidenced by a significant rise in bond yields, while stock markets have made good gains over the past two months. Meanwhile, markets have also scaled back their expectations in regard to monetary easing. The ECB was expected to cut the deposit rate to as low as -0.7% or -0.75%. Now markets are not even fully pricing in a further full 10bps of easing to -0.6%. In the UK, markets are no longer anticipating a full 25bps rate cut from the BoE, whereas not that long ago, they were pondering whether we could get two rate cuts. Across the Atlantic, interest rate cut expectations have been pared back by around 20bps in the US.
- The improved sentiment is not attributable to better economic data.** The flash PMI data for October for the Eurozone and US show little improvement on the very weak September figures. They point to a stagnant economy in Europe and very soft growth in the US. GDP data due in the week ahead for Q3 are expected to show that the Eurozone economy grew by just 0.1%, while US growth is forecast at 1.7% in annualised terms, its weakest quarterly growth rate in a number of years. Continuing weak data have recently seen both the IMF and OECD yet again cut their growth forecasts for the world economy for both 2019 and 2020 and highlight the “difficult headwinds” weighing on the prospects for global growth.
- Market sentiment may have simply become overly negative. It also being helped by an easing in US-China trade tensions and the progress made on Brexit, with a disorderly no-deal Brexit at end October being taken off the table.** However, both of these downside risks to growth are far from being resolved. In particular, getting the revised Brexit deal through the UK Parliament is proving to be a challenge. Even if the revised Withdrawal Agreement is eventually ratified, the UK could still be facing what amounts to a hard Brexit at end 2020. There is a real prospect that what replaces the Single Market when the transition period ends is a very inferior EU-UK trade deal, given the current UK government’s focus on ‘taking back control’ and moving away from the EU’s regulatory regime.
- Turning to the week ahead, a key focus for markets will be the Fed’s October FOMC meeting.** In September, Chair Powell stated that the central bank’s stance was now data dependent. Since then, the key releases have disappointed. Therefore, it is expected that the FOMC will vote to reduce rates by 25bps, the third consecutive cut since mid-year. This would see the target range for the fed funds rate fall to 1.50-1.75%. In terms of guidance, Chair Powell will likely continue to emphasise that the central bank will “act as appropriate to sustain the expansion”. Futures contracts are pricing in almost two more rate cuts by early-2021.
- There is also a packed data schedule in the US this week, the highlight of which is, aside from the aforementioned release of the first estimate of Q3 GDP, the October employment report.** Payrolls, which are trending downwards, are forecast at just 90k, although this partly reflects the impact of the GM strike (since resolved) earlier in the month. Weaker employment growth could see the jobless rate edge up to 3.6%, from 3.5%. Despite the slower pace of jobs creation, year-on-year earnings growth looks to have picked back up to 3.0%, from 2.9%. The Q3 print of the Fed’s preferred measure of wage inflation, the wages subcomponent of the Employment Cost Index, is forecast at 3.0%. However, decent earnings growth has not yet translated into a build up of price pressures. Indeed, in September, the consensus is for core-PCE inflation to edge down to 1.7%. In terms of timelier indicators, a modest increase in the manufacturing ISM is expected in October, while still remaining below the key 50 level.
- In the Eurozone, this week’s EC Sentiment indices will likely suggest that growth may have moderated further at the start of the final quarter of the year.** A fall in the headline sentiment index is pencilled in for October. Meanwhile, inflation is expected to have remained very muted in the same month, with flash headline HICP forecast to edge down to 0.7%. With regard to the labour market, the jobless rate looks to have held at 7.4% in September.
- Elsewhere, the only release of any note in the UK this week is the October manufacturing PMI, which looks set to remain deep in contractionary territory. Finally, the BoJ, which has adopted an easing bias, meets on Thursday morning.** Inflation is well below target, but in the face of still solid domestic demand, recent positive developments in US-China trade talks and strong financial markets, the central bank may keep policy unchanged.



	Interest Rate Forecasts			
	Current	End Q4 2019	End Q1 2020	End Q2 2020
Fed Funds	1.875	1.625	1.625	1.625
ECB Deposit	-0.50	-0.50	-0.60	-0.60
BoE Repo	0.75	0.75	0.75	0.75
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 2019	End Q1 2020	End Q2 2020
EUR/USD	1.1095	1.10	1.11	1.12
EUR/GBP	0.8657	0.86	0.86	0.86
EUR/JPY	120.49	118	119	119
GBP/USD	1.2813	1.28	1.29	1.30
USD/JPY	108.58	107	107	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Tenreiro (Monday)		
	ECB Speakers:	Lagarde (Monday); de Guindos (Thursday)		
	Fed Speakers:	Clarida, Quarles, Williams (Friday)		
Mon 28th	IRL:	October Bank Holiday (Market Holiday)		
	EU-19:	09.00 M3 Money Supply (September)	(+5.7%)	(+5.7%)
	UK:	11.00 CBI Distributive Trades (October)	-16	-20
	US:	12.30 Advance Goods Trade Balance (September)	-\$73.1bn	
Tue 29th	IRL:	11.00 Retail Sales (September)	+5.7% (+2.1%)	-1.0% (+1.5%)
	US:	13.00 Case-Shiller House Prices (August)	(+2.0%)	(+2.1%)
	US:	14.00 Conference Board Consumer Confidence (Oct.)	125.1	127.3
	US:	14.00 Pending Home Sales (September)	+1.6% / 107.3	+0.8% / 108.2
Wed 30th	FRA:	06.30 GDP (Q1: First Reading)	+0.3%	+0.2%
	FRA:	07.45 Consumer Spending (September)	+0.0%	-0.1%
	GER:	08.55 Unemployment (October)	5.0%	5.0%
	ITA:	09.00 ISTAT Business Confidence (October)	98.8	98.5
	EU-19:	10.00 Business Climate (October)	-0.22	-0.24
	EU-19:	10.00 Economic Sentiment Index (October)	101.7	101.1
		- Industrial / Services / Consumer	-8.8 / 9.5 / -7.6	-8.8 / 9.3 / -7.6
	US:	12.30 GDP (Q3: Advance Reading)	+2.0% s.a.a.r.	+1.7%
	US:	12.30 Advance Core PCE Prices (Q3)	+1.9% s.a.a.r.	+1.9%
	GER:	13.00 Preliminary HICP (October)	(+0.9%)	(+0.8%)
	US:	18.00 Fed Interest Rate Announcement	1.75%-2.00%	1.50-1.75%
	US:	18.30 Fed Press Conference		
	JPN:	23.50 Industrial Output (September)	-1.2%	+0.4%
Thurs 31st	UK:	00.01 GfK Consumer Confidence (October)	-12	-13
	CHINA:	01.00 NBS Manufacturing PMI (October)	49.8	49.8
	JPN:	02.00 BoJ Interest Rate Announcement	-0.10%	-0.10%
	GER:	07.00 Retail Sales (September)	+0.5%	+0.2%
	FRA:	07.45 Preliminary HICP (October)	(+1.1%)	(+1.1%)
	SPA:	08.00 GDP (Q1: First Reading)	+0.4% (+2.0%)	+0.4% (+1.9%)
	ITA:	09.00 Unemployment (September)	9.5%	
	ITA:	10.00 Preliminary HICP (October)	(+0.2%)	(+0.3%)
	EU-19:	10.00 Preliminary HICP (October)	(+0.8%)	(+0.7%)
		- Ex-Food & Energy	(+1.2%)	(+1.1%)
	EU-19:	10.00 GDP (Q3: First Reading)	+0.2% (+1.2%)	+0.1% (+1.1%)
	EU-19:	10.00 Unemployment (September)	7.4%	7.4%
	ITA:	11.00 GDP (Q3: First Reading)	+0.1% (-0.1%)	+0.0% (+0.2%)
	US:	12.30 Personal Income / Consumption (September)	+0.4% / +0.1%	+0.3% / +0.2%
		- Core PCE Prices	(+1.8%)	(+1.7%)
	US:	12.30 Initial Jobless Claims (w/e 21st October)	212,000	215,000
	US:	12.30 Employment Cost Index—Wages (Q3)	(+3.0%)	(+3.0%)
	JPN:	23.30 Unemployment / Jobs: Applicants (September)	2.2% / 1.59	2.3% / 1.59
Fri 1st	IRL:	00.01 AIB Manufacturing PMI (October)	48.7	
	CHINA:	01.45 Caixin Manufacturing PMI (October)	51.4	51.0
	EU-19:	09.00 Final Markit Manufacturing PMI (October)	45.7 / 45.7 (p)	45.7
	UK:	09.30 CIPS / Markit Manufacturing PMI (October)	48.3	48.1
	US:	12.30 Non-Farm Payrolls (October)	+136k	+90k
		- Unemployment	3.5%	3.6%
		- Average Earnings	(+2.9%)	(+3.0%)
	US:	13.45 Final Markit Manufacturing PMI (October)	51.1 / 51.5 (p)	51.5
	US:	14.00 Manufacturing ISM (October)	47.8	48.8

◆ 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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