Weekly Market Brief

AIB Treasury Economic Research Unit

29th October—2nd November 2018

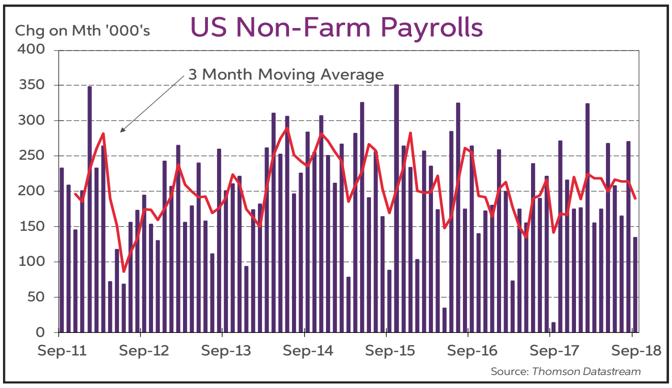
Nightmare on Wall Street

- **Financial markets have had a roller-coaster ride in the past week, with equities coming under intense pressure in very volatile trading.** We highlighted only recently the warning by the IMF that the easy financial conditions in place for much of this decade are contributing to a build-up of vulnerabilities in financial markets, such as high debt levels and stretched asset valuations. The IMF warned in particular that markets appeared "complacent" about the risk of a sharp tightening in financial conditions, especially with monetary policy now turning less accommodative. We have already seen this year how the steady tightening of monetary policy by the Fed and associated strengthening of the US dollar has had a severe impact on a number of emerging economies.

- **A multitude of factors and not just lofty valuations are weighing on stock market sentiment,** including: rising US interest rates, some softening in economic data globally, a likely peak in corporate earnings growth, the simmering US-China trade war, the rift between the European Commission and Italy on budgetary policy, multiple concerns over European banks, uncertainty on Brexit, difficulties in some emerging-market economies and on-going geo-political tensions. Thus, risk aversion is the order of the day for now, with bond markets reversing recent declines in a flight-to-quality into safer assets.

- **The key factor going forward will be economic data, as they will determine the extent to which monetary policy is tightened.** There is much uncertainty here as despite forecasts pointing to continued solid global growth, downside risks are mounting. Central banks in particular seem confident that growth will be sustained, especially as monetary conditions remain accommodative. We have seen both the Fed's Powell and ECB's Draghi sounding pretty confident recently on the economic outlook. Markets, though, are likely to batten down the hatches for the rest of the year and keep a close eye on the data, starting with this week's US employment report for October.

- **Non-farm payrolls are forecast to rise by 190,000, rebounding after September's dip which was in part due to the impact of extreme weather.** The tight labour market is expected to result in average hourly earnings growth moving up by a strong 3.1% in the month, from 2.8%. Meantime, the Fed's preferred measure of wage growth, the Employment Cost Index, is seen edging up to 2.8% in Q3. It is envisaged that personal consumption registered another strong monthly rise of 0.3% in September. Meanwhile, core PCE is anticipated to have remained close to the Fed's 2.0% inflation target in the month. The release of October's manufacturing ISM will also provide an update on the supply side of the economy.



- **In the UK, the focus will be on fiscal and monetary policy developments. On Monday, Chancellor Hammond will deliver Budget 2018.** The recent improvement in public finances presents the government with extra fiscal headroom. However, with Brexit looming, much of this may be held back, given a number of spending commitments have already been preannounced. **Likewise, Brexit uncertainty is expected to result in the BoE opting to leave policy unchanged at its November meeting.** The consensus is that any changes are on hold until at least Q2 2019. Although, the post-meeting press conference and November's inflation report will be looked to for an update on the BoE's economic outlook. On the data front, the UK manufacturing PMI is also set to feature.

- **The main release in the Eurozone is the first reading of Q3 GDP.** The forecast is for a third consecutive 0.4% rise. Meantime, the unemployment rate looks set to have held at 8.1% in September. However, in terms of more timely updates on the economy, the EC sentiment indices for October are out this week. It is anticipated that the headline index will dip, following the trend from last week's disappointing PMI data. Flash HICP figures for October are also due. Headline inflation is expected to increase slightly from 2.1% to 2.2%, while the core rate is also forecast to have moved up marginally to 1.2% (Sep' 1.1%), a still very subdued level.

- **Elsewhere, the BoJ is meeting this week.** Given weak Japanese inflation figures, the market consensus is that there are unlikely to be any changes to policy announced.

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	1.1360	1.15	1.17	1.19
EUR/GBP	0.8868	0.88	0.87	0.86
EUR/JPY	126.82	129	130	131
GBP/USD	1.2806	1.30	1.34	1.38
USD/JPY	111.60	112	111	110

Current Rates Reuters, Forecasts AIB's ERU

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ECONOMIC DIARY

Monday 29th October—Friday 2nd November 2018

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	**Fed Speakers:**		Evans (Monday)		
	ECB Speakers:		Praet (Tuesday)		
Mon 29th	***IRL:***		***October Bank Holiday (Market Holiday)***		
	UK:	15.30	Chancellor Hammond Announces UK Budget		
	UK:	09.30	BoE Mortgage Approvals (September)	66,440	64,750
	US:	12.30	Personal Income / Consumption (September)	+0.3% / +0.3%	+0.4% / +0.3%
			- Core PCE Prices (September)	(+2.0%)	(+1.9%)
Tue 30th	**FRA:**	06.30	GDP (Q3: First Reading)	+0.2%	+0.5%
	FRA:	07.45	Consumer Spending (September)	+0.8%	-0.4%
	GER:	08.55	Unemployment (October)	5.1%	5.1%
	ITA:	09.00	GDP (Q3: First Reading)	+0.2%	+0.2%
	ITA:	10.00	ISTAT Business Confidence (October)	105.7	104.8
	ITA:	10.00	Consumer Confidence (October)	116.0	115.0
	EU-19:	10.00	GDP (Q3: First Reading)	+0.4% (+2.1%)	+0.4% (+1.8%)
	EU-19:	10.00	EC Business Climate (October)	1.21	1.14
	EU-19:	10.00	EC Economic Sentiment (October)	110.9	110.0
			- Industrial / Services / Consumer	4.7 / 14.6 / -2.7	3.8 / 14.0 /-2.7
	IRL:	***11.00***	***Retail Sales (September)***	***-3.3% (+2.6%)***	***-1.0% (+4.0%)***
	UK:	10.00	CBI Distributive Trades (October)	23	
	US:	13.00	Case-Shiller House Prices (August)	(+5.9%)	(+5.8%)
	GER:	13.00	Preliminary HICP (October)	(+2.2%)	(+2.4%)
	US:	14.00	Consumer Confidence (October)	138.4	135.8
Wed 31st	**UK:**	00.01	GfK Consumer Confidence (October)	-9	-10
	CHINA:	01.00	NBS Manufacturing PMI (October)	50.8	50.7
	JPN:	03.00	BoJ Interest Rate Announcement	-0.10%	-0.10%
	GER:	07.00	Retail Sales (September)	-0.1%	+0.5%
	FRA:	07.45	Preliminary HICP (October)	(+2.5%)	(+2.6%)
	ITA:	09.00	Unemployment (September)	9.7%	9.9%
	ITA:	10.00	Preliminary HICP (October)	(+1.5%)	(+1.8%)
	EU-19:	10.00	Flash HICP (October)	(+2.1%)	(+2.2%)
			- Ex-Food & Energy	(+1.1%)	(+1.2%)
	EU-19:	10.00	Unemployment (September)	8.1%	8.1%
	IRL:	***11.00***	***Unemployment (October)***	***5.4%***	***5.4%***
	US:	12.30	Employment Cost Index (Q3)	(+2.7%)	(+2.8%)
Thurs 1st	**Most EU-19:**		All Saints Day (Market Holiday)		
	CHINA:	01.45	Caixin Manufacturing PMI (October)	50.0	49.9
	UK:	07.00	Nationwide House Prices (October)	+0.3% (+2.0%)	+0.2% (+1.9%)
	UK:	09.30	CIPS/Markit Manufacturing PMI (October)	53.8	53.0
	UK:	12.00	BoE Interest Rate Announcement	0.75%	0.75%
			- Meeting Minutes / November Inflation Report		
	UK:	12.30	BoE Press Conference		
	US:	14.00	Construction Spending (September)	+0.1%	+0.1%
	US:	14.00	Manufacturing ISM (October)	59.8	59.0
	US:	15.00	Total Vehicle Sales (October)	17.44m s.a.a.r.	17.10m
Fri 2nd	**EU-19:**	09.00	Final Markit Manufacturing PMI (October)	53.2 / 52.1 (p)	52.1
	IRL:	***11.00***	***Live Register (October)***	***+1,600/212,600***	***-2,600/210,000***
	UK:	12.30	CIPS/Markit Construction PMI (October)	52.1	51.9
	US:	12.30	Non-Farm Payrolls (October)	134,000	190,000
			- Unemployment	3.7%	3.7%
			- Average Hourly Earnings	(+2.8%)	(+3.1%)
	US:	14.00	Factory Orders (September)	+2.3%	+0.4%
	IRL:	***16.30***	***Underlying Exchequer Balance (October)***	***Oct'17: -€3.1bn***	***-€3.3bn***

♦ *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