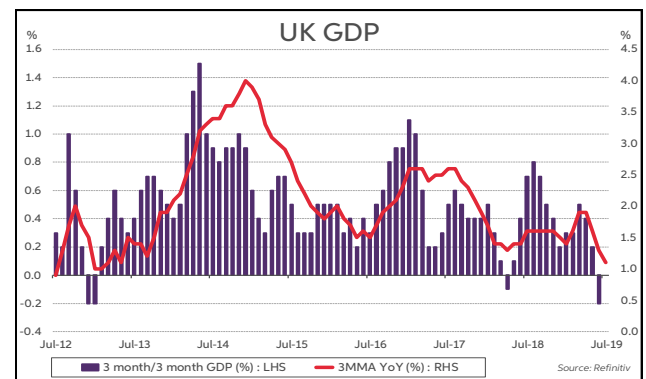


On a Wing and a Prayer

- The OECD in its latest update on the world economy says the prospects for global growth have become increasingly fragile and uncertain.** It again reduced its growth forecasts for 2019 and 2020. Global growth is now projected to slow from 3.6% in 2018 to 2.9% in 2019 and 3% in 2020. These would be the weakest growth rates since the financial crises. A key reason for the weak performance is the downturn in manufacturing activity and associated sharp slowdown in international trade over the past year.
- Recent weak survey data are giving rise to concerns in markets that the slowdown in economic activity could yet develop into outright recession.** Manufacturing accounts for only circa 12% of output in most economies. Thus, by itself, the weakness in the sector is not a cause for major alarm. However, there have been signs in the latest business surveys that the softness in the industrial sector is now spreading to the much larger services sector of economies. We have seen a marked weakening in the PMI services data for September in the Eurozone and UK, and a sharp decline in the ISM services survey in the US. The fear is that a slowdown in the large services sector will soon start to impact labour markets and consumer spending, adding to the downturn in activity.
- Thus, markets are becoming increasingly worried about the global economic outlook.** Stock markets have come under pressure in the past week. Bond yields have resumed their marked decline in a flight-to-quality and as markets price in even more rate cuts from central banks. However, with only limited scope for monetary easing, especially in Europe, expansionary fiscal policies will also be required to stem the weakening trend in global growth. Although, with public debt still at very high levels, many governments are reluctant to go down this route, leaving the world economy flying on a wing and a prayer.
- Turning to the week ahead, the highlight of what is a relatively quiet calendar is the latest estimate of UK GDP.** Output unexpectedly expanded by 0.3% in July, which helped reduce fears that the UK economy will enter into a technical recession in Q3. However, leading indicators, such as the PMIs, have been very weak in the interim. The forecast is for growth of just 0.1% in the three months to end-August. In terms of the underlying breakdown, it is anticipated that industrial production dipped by 0.1% in August.
- Meanwhile, the main releases in the Eurozone this week are industrial production figures for August from Germany, France and Italy.** The forecast is for output to have been flat in both Germany and Italy. In contrast, in France, where the data have held up comparatively well, an increase of 0.4% is expected.
- On the monetary policy front, the ECB's account of its September meeting will be looked to for a better understanding of the degree of division within the Governing Council on the recent stimulus package. Minutes from the Fed's September meeting will also feature.** As with the ECB Governing Council, the FOMC in the US is also divided on policy. However, Chair Powell did state that Fed policy is now highly data dependent. US macro-releases have generally printed below expectations since then, while there has been little progress in resolving US-China trade tensions. These developments have led to markets almost fully pricing in a further 25bps rate cut at the upcoming October FOMC meeting. Therefore, markets will hope to gain an insight from the minutes into how sensitive members of the FOMC are to trends in US macro data. Speeches on Tuesday and Wednesday by Chair Powell will also attract some attention.
- Data-wise, we get the September print of CPI in the US.** It is envisaged that lower oil prices will lead to headline inflation holding below the Fed's 2% target level, at 1.8% in September. In contrast, high rental and medical costs are expected to see the core rate remain at a relatively robust 2.4%. We also get the preliminary reading of the Michigan Consumer Sentiment index for October. The index looks to have declined, reflecting both political and trade related uncertainty
- Lastly, in Ireland the Minister of Finance will deliver the 2020 Budget speech at 1pm on Tuesday.** The Government is basing the budget on the assumption of a no-deal Brexit, meaning it could be a low key affair with little in the way of new announcements. The economy is expected to show weak growth in the event of the UK crashing out of the EU. Therefore, the forecast from the Government will show public finances moving back into a small deficit in 2020.



	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	1.0969	1.10	1.11	1.12
EUR/GBP	0.8918	0.86	0.86	0.86
EUR/JPY	117.36	118	119	119
GBP/USD	1.2294	1.28	1.29	1.30
USD/JPY	107.00	107	107	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Carney , Tenreyro (Tuesday)		
	ECB Speakers:	de Cos, Lane (Tuesday); de Guindos, Lane (Thursday); de Guindos (Friday)		
	Fed Speakers:	Kashkari (Monday); Evans, Kashkari, Powell (Tuesday); Powell (Wednesday) Kashkari, Mester (Thursday); Kaplan, Kashkari, Rosengren (Friday)		
Mon 7th	JPN:	06.00	Leading Indicators' Index (August)	0.1
	GER:	07.00	Industrial Orders (August)	-2.7%
	EU-19:	09.30	Sentix Index (October)	-11.1
	US:	20.00	Consumer Credit (August)	\$23.3bn
				\$18.2bn
Tue 8th	UK:	00.01	BRC Retail Sales (September)	(-0.50%)
	JPN:	06.00	Economy Watchers' Poll (September)	42.8
	GER:	07.00	Industrial Output (August)	-0.6%
	FRA:	07.45	Trade Balance (August)	-€4.61bn
	US:	11.00	NFIB Business Optimism (September)	103.1
	IRL:	13.00	Budget 2020	
	US:	13.30	PPI (September)	(+1.8%)
				(+1.8%)
Wed 9th	US:	19.00	Minutes from the Fed's September Meeting Published	
Thurs 10th	UK:	00.01	RICS House Price Survey (September)	-4
	JPN:	00.50	Domestic Wholesale Prices (September)	(-0.9%)
	JPN:	00.50	Core Machinery Orders (August)	(+0.3%)
	GER:	07.00	Trade Balance (August)	€20.2bn
			- Exports	+0.7%
				-1.2%
	FRA:	07.45	Industrial Output (August)	+0.3%
				+0.4%
	ITA:	09.00	Industrial Output (August)	-0.7%
				+0.1%
	UK:	09.30	GDP (3 Months to August)	+0.0% (+1.0%)
				+0.1% (+1.0%)
	UK:	09.30	Industrial Output (August)	+0.1% (-0.9%)
				-0.1% (-0.9%)
			- Manufacturing	+0.3% (-0.6%)
				-0.1% (-0.7%)
	UK:	09.30	Goods Trade Balance (August)	-£9.14bn
				-£10.00bn
			- Non-EU	-£1.93bn
				-£2.80bn
	IRL:	11.00	CPI (September)	+0.5% (+0.7%)
				-0.3% (+0.8%)
	IRL:	11.00	Residential Property Prices (August)	+0.9% (+2.3%)
				+0.2% (+1.9%)
	EU-19:	12.30	ECB's Account from September Meeting Published	
	US:	13.30	CPI (September)	(+1.7%)
			- Core	(+2.4%)
				(+1.8%)
	US:	13.30	Initial Jobless Claims (w/e 30th September)	219,000
				217,000
Fri 11th	GER:	07.00	Final HICP (September)	(+0.9%)
	US:	15.00	Prelim' Michigan Consumer Sentiment (Oct.)	93.2
				92.0

◆ 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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