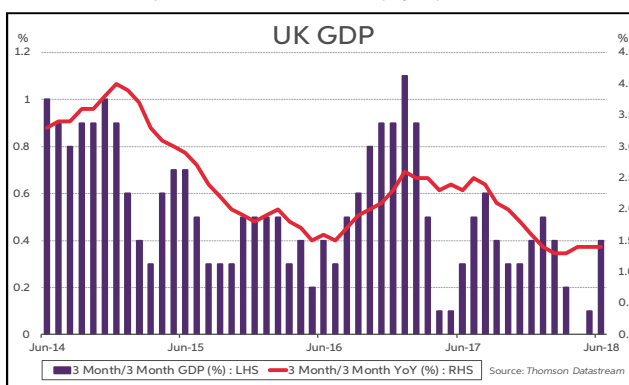


Sticking to their guns

- **The US economy is continuing to power ahead, with growth likely to have been robust again in the third quarter.** The market has largely discounted that strong economic data will see the Fed hike this month and again in December, bringing the funds rate up to 2.375% by end year—futures contracts point to a rate of 2.34% in December. However, markets remain steadfast in not buying into Fed projections that rates will continue to rise at a steady pace in 2019 and 2020. The market sees the funds rate rising to 2.7% in 2019 and remaining there in 2020 and 2021. This implies little more than one further 25bps hike beyond the end of this year.
- By contrast, the Fed is projecting that there will be a further three 25bps rate rises in 2019 and an additional rate hike in 2020, taking the funds rate up to close on 3.4%, or 70bps above where the market expects. **The strong US economic data over the summer have not moved market expectations on rates**, while there is little to suggest that the FOMC will alter its view when it publishes updated rate projections at its September meeting.
- The market view that rates will not rise much further in 2019/20 has seen the yield on US Treasuries confined to a relatively narrow range since early summer. Two-year yields have traded in a 2.6-2.7% range since July; the level that markets expect official rates to top out at. **It would seem that markets are expecting that either the US economy will slow appreciably next year or that there will be contagion from the sharp falls in emerging markets that will limit the Fed's ability to raise rates much further in 2019 and beyond.** If markets are wrong and the Fed continues to hike through next year, then US yields can be expected to move sharply upwards.
- In terms of the immediate future, there is a busy schedule to look forward to in the coming days. **A particularly full UK calendar includes the ONS estimate of GDP for the three months to July.** The consensus view is that growth will improve to +0.5%, versus +0.4% in the three months to June.
- In terms of the labour market, UK employment growth has softened again recently, after improving earlier in the year. **Employment is expected to have recorded a very modest 27k increase in the three months to July**, compared to a 146k rise in the three months to April, though the unemployment rate looks to have held at just 4%. Despite this, average earnings growth is anticipated to have remained relatively modest at 2.5% in the three months to July.
- Meanwhile, **the Bank of England is due to meet this week.** Although, no policy changes or major alterations to its outlook are expected. The BoE hiked rates at its last meeting in August, though it continued to indicate a very slow pace of future policy tightening. Turning to the Eurozone, **the ECB is also due to meet.** As with the BoE, no policy changes or major updates are anticipated. While headline inflation in the Eurozone has risen to around 2% recently, the core measure edged down to just 1.2% in August meaning the Governing Council retains significant scope to maintain an exceptionally easy monetary policy over the medium-term.
- **The Eurozone data schedule includes employment figures for Q2**, with a further healthy quarterly rise likely. Wage growth for the second quarter and industrial production for July also feature. **In the US, retail sales figures for August are the main release. Another solid increase is forecast.** Positive readings are also expected from industrial production (August) and the preliminary Michigan measure of consumer sentiment (September). Meantime, CPI inflation is predicted to slow slightly in August, while remaining close to 3%.
- Finally, **the Q2 National Accounts are due in Ireland.** Data in the quarter remained consistent with a robust pace of expansion. Thus, we could see year-on-year growth in GDP of around 4-5%. However, the data remain volatile and are heavily distorted by the activity of a few large multi-nationals.



	Interest Rate Forecasts			
	Current	End Q3 2018	End Q4 2018	End Q1 2019
Fed Funds	1.875	2.125	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
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 Q3 2018	End Q4 2018	End Q1 2019
EUR/USD	1.1574	1.15	1.16	1.17
EUR/GBP	0.8934	0.90	0.89	0.88
EUR/JPY	128.54	127	126	126
GBP/USD	1.2953	1.28	1.30	1.33
USD/JPY	111.01	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Smets (Friday)		
	Fed Speakers:	Bostic (Monday); Bullard (Wednesday); Bostic, Williams (Thursday)		
	BoE Speakers:	Carney (Friday)		
Mon 10th	JPN	00.50 GDP (Q2: Second Reading)	+0.5% / +1.9% s.a.a.r. (p)	+0.7% / +2.6%
	JPN:	06.00 Economy Watchers' Poll (August)	46.6	
	UK:	09.30 GDP (3 Months to July)	+0.4% (+1.3%)	+0.5% (+1.4%)
	UK:	09.30 Industrial Output (July)	+0.4% (+1.1%)	+0.2% (+1.1%)
		- Manufacturing	+0.4% (+1.5%)	+0.2% (+1.5%)
	UK:	09.30 Goods Trade Balance (July)	-\$11.38bn	-\$11.75bn
		- Non-EU	-\$2.94bn	-\$3.30bn
	EU-19:	09.30 Sentix Index (September)	14.7	14.6
Tue 11th	UK:	09:30 Employment (3 Months to July)	42,000	27,000
		- ILO Unemployment	4.0%	4.0%
	UK:	09:30 Average Weekly Earnings (3 Months to July)	(+2.4%)	(+2.5%)
		- Ex-Bonus	(+2.7%)	(+2.8%)
	GER:	10.00 ZEW Economic Sentiment (September)	-13.7	-14.0
	EU-19:	10.00 ZEW Economic Sentiment (September)	-11.1	
	IRL:	11.00 Residential Property Prices (July)	+1.1% (+12.0%)	+1.0% (+10.4%)
	US:	11.00 NFIB Business Optimism (August)	107.9	
Wed 12th	ITA:	09.00 Industrial Output (July)	+0.5%	-0.4%
	EU-19:	10.00 Employment (Q2)	+0.4%	+0.3%
	EU-19:	10.00 Industrial Production (July)	-0.7% (+2.5%)	-0.4% (+1.0%)
	US:	13:30 PPI (August)	(+3.3%)	(+3.2%)
	US:	19.00 Fed Beige Book Published		
Thurs 13th	UK:	00.01 RICS House Price Survey (August)	4	2
	JPN:	00.50 Domestic Wholesale Prices (August)	(+3.1%)	(+3.1%)
	JPN:	00.50 Core Machinery Orders (July)	(+0.3%)	(+4.7%)
	GER:	07.00 Final HICP (August)	(+1.9%) (p)	(+1.9%)
	FRA:	07.45 Final HICP (August)	(+2.6%) (p)	(+2.6%)
	IRL:	11.00 CPI (August)	+0.4% (+0.8%)	+0.3% (+0.6%)
	IRL:	11.00 GDP (Q2)	(+9.1%)	(+4.5%)
	UK:	12.00 BoE Interest Rate Announcement	0.75%	0.75%
		- Meeting Minutes		
	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 Initial Jobless Claims (w/e 3rd September)	203,000	210,000
	US:	13.30 CPI (August)	(+2.9%)	(+2.8%)
		- Core (Ex-Food & Energy)	(+2.4%)	(+2.4%)
Fri 14th	CHINA:	03.00 Industrial Output (August)	(+6.0%)	(+6.0%)
	ITA:	09.00 Final HICP (August)	(+1.7%) (p)	(+1.7%)
	EU-19	10.00 Wage Growth (Q2)	(+1.8%)	
	IRL:	11.00 Goods Trade Balance (July)	€4.1bn	€4.0bn
	US:	13.30 Import / Export Prices (August)	0.0% / -0.5%	-0.3% / 0.0%
	US	13.30 Retail Sales (August)	+0.5%	+0.5%
		- Ex-Autos	+0.6%	+0.5%
		- Ex-Gas, Autos & Building Materials	+0.5%	+0.5%
	US:	14.15 Industrial Production (August)	+0.1%	+0.3%
		- Capacity Utilisation	78.1%	78.3%
	US:	15.00 Prelim' Michigan Consumer Sent' (September)	96.2	96.3

◆ 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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