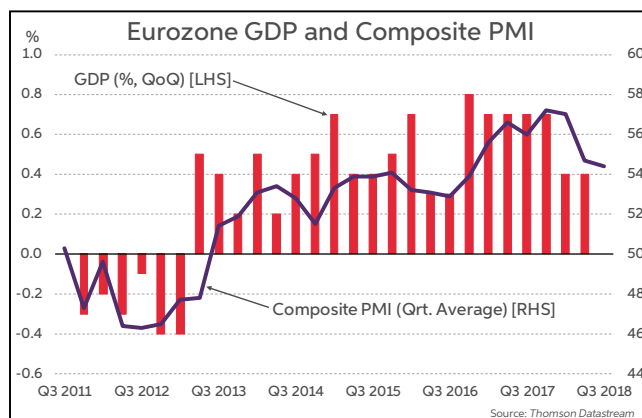


## Respite for markets

- The past week saw the return of risk appetite to markets, with stocks making good gains and bond yields moving higher on an easing of some of the concerns that had been weighing on sentiment over the summer.** The biggest mover has been Italy, after the government long-fingered tax cuts and spending increases that would have inflated the budget deficit. Good progress in its fiscal negotiations with the EU mean that the Italian government is now likely to deliver a reasonably market friendly 2019 budget next month. As a result, ten year Italian-German spreads have narrowed by around 55bps since the start of September.
- Meanwhile, some of the pressure on emerging market currencies eased following the large rate hikes announced by the Central Banks of Argentina and Turkey. **There was also some easing of global trade tensions in the past week, with hopes that the US will not impose further tariffs on Chinese imports** after it was announced that trade talks between the two countries are set to re-commence. There was also further good news for markets in comments by the EU Chief Brexit Negotiator, Michel Barnier, that a withdrawal agreement could be reached with the UK within the next six to eight weeks. This helped sterling recover some ground.
- Caution is warranted, though, as investor sentiment remains fragile and the risks to markets have not gone away.** In particular, some large emerging economies have deep-seated problems that will be difficult to overcome. Thus, risks of contagion remain very real for financial markets. Trade talks between the US and China are also going to be difficult. Meanwhile, the most challenging part of the Brexit process is not finalising an EU-UK agreement, but rather getting the deal through the UK Parliament. Plenty of turbulence can be expected on the domestic political front in the UK over the next six months, resulting in continued choppy waters for sterling. On that note, this Wednesday's informal meeting of EU leaders will be closely followed.

- Data-wise, this week's release of Eurozone flash PMIs for September will be looked to for an early read of the performance of the economy in Q3.** The headline Composite PMI is forecast to show little change in the month. This means the average for Q3 is likely to be very close to its Q2 reading of 54.7. This would be consistent with another quarterly rise in GDP of around 0.4%. Meantime, the flash EC measure of Eurozone consumer confidence looks set to have remained at a very encouraging level, consistent with healthy growth in household spending.



- Turning to the UK, CPI data for August are due.** Inflation has remained above the BoE's 2% target rate in recent months, edging up slightly to 2.5% in July, partly reflecting higher oil prices. It is expected to have edged back down to 2.4% in August, while the core (ex food and energy) measure is forecast to have dipped slightly to 1.8%. **While inflation remains above target, recent improvements in earnings figures mean that the UK is now back in a period of modest real wage growth.** This should help to support the key consumer sector. In that regard, retail sales growth has been strong in recent months. They rose by 0.7% in July, partly due to temporary boosts from the warm weather and World Cup. Thus, not surprisingly, some reversal in sales growth is forecast for August.
- Flash PMI data for September are also set to feature in the US.** Both the manufacturing and services indices are anticipated to be little changed, after moving lower in August. Overall then, **the PMIs look set to suggest that the pace of growth in the US moderated slightly in Q3** but this follows a very strong 4.2% annualised rate recorded in Q2. The schedule for the coming days contains a number of US housing market updates, including existing home sales and housing starts for August, along with NAHB homebuilder sentiment for September. Recent data from the sector have generally indicated that activity may be levelling off.

	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	1.1664	1.15	1.16	1.17
EUR/GBP	0.8908	0.90	0.89	0.88
EUR/JPY	130.68	127	126	126
GBP/USD	1.3091	1.28	1.30	1.33
USD/JPY	112.01	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Couré, Praet, Mersch (Monday); Draghi, Nouy (Tuesday); Draghi (Wednesday); Praet (Thursday)		
	<b>BoE Speakers:</b>	Haldane (Wednesday)		
<b>Mon 17th</b>	<b>EU-19:</b>	10.00 Final HICP (August) - Ex-Food & Energy	(+2.0%) (p) (+1.2%) (p)	(+2.0%) (+1.2%)
	<b>US:</b>	13.30 NY Fed / Empire State Index (September)	25.6	23.0
<b>Tue 18th</b>	<b>US:</b>	15.00 NAHB Homebuilders Sentiment (September)	67	66
<b>Wed 19th</b>		<b>Informal EU-28 Leaders Meeting</b>		
	<b>JPN:</b>	00.50 Trade Balance (August) - Exports	-¥231.2bn (+3.9%)	-¥468.7bn (+5.6%)
	<b>JPN:</b>	03.00 BoJ Interest Rate Announcement	-0.10%	-0.10%
	<b>EU-19:</b>	09.00 Current Account (July)	€23.5bn	
	<b>UK:</b>	09.30 CPI (August) - Ex-Food & Energy	(+2.5%) (+1.9%)	(+2.4%) (+1.8%)
	<b>UK:</b>	09.30 PPI Output (August) - Input	(+3.1%) (+10.9%)	(+2.9%) (+9.2%)
	<b>US:</b>	13:30 Housing Starts (August) - Building Permits	+0.9% / 1.168m s.a.a.r. +0.9% / 1.303m s.a.a.r.	+4.5% / 1.22m +0.5% / 1.31m
<b>Thurs 20th</b>	<b>UK:</b>	09.30 Retail Sales (August)	+0.7% (+3.5%)	-0.2% (+2.3%)
	<b>US:</b>	13.30 Initial Jobless Claims (w/e 10th September)	204,000	210,000
	<b>US:</b>	13.30 Philly Fed Index (September)	11.9	15.3
	<b>US:</b>	15.00 Existing Home Sales (August)	-0.7% / 5.34m s.a.a.r.	+0.2% / 5.36m
	<b>EU-19:</b>	15.00 Flash EC Consumer Confidence (September)	-1.9	-2.0
<b>Fri 21st</b>	<b>JPN:</b>	00.30 CPI (August)	(+0.9%)	(1.0%)
	<b>FRA:</b>	07.45 GDP (Q2: Final Reading)	+0.2% (p)	+0.2%
	<b>FRA:</b>	08.15 Flash Markit Composite PMI (September)	54.9	54.7
	<b>GER:</b>	08.30 Flash Markit Composite PMI (September)	55.6	55.5
	<b>EU-19:</b>	09.00 Flash Markit Composite PMI (September) - Manufacturing / Services	54.5 54.6 / 54.4	54.4 54.4 / 54.4
	<b>UK:</b>	09.30 PSNB Ex-Interventions (August)	Aug'17: -£2.01bn	£3.35bn
	<b>US:</b>	14.45 Flash Markit Manufacturing PMI (September)	54.7	55.0
	<b>US:</b>	14.45 Flash Markit Services PMI (September)	54.8	55.0

◆ 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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