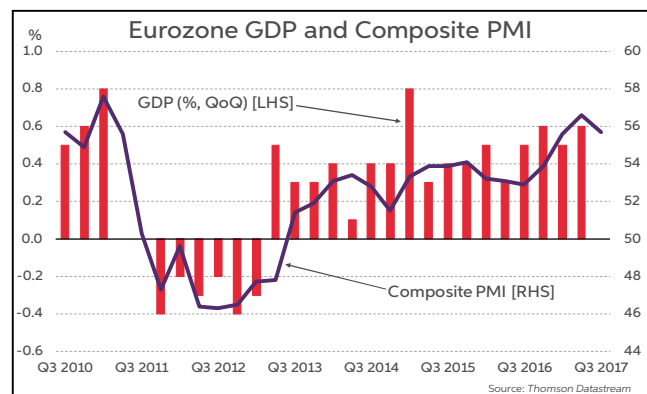


Tide is turning

- We warned last week that the gains registered since mid-year by “frothy” bonds were unlikely to prove sustained as markets had become too optimistic about the outlook for interest rates. **Signs of some progress being made in relation to tax cuts in the US, combined with stronger inflation data and much more hawkish than expected minutes from the Bank of England’s September MPC meeting saw bond markets reverse course during the past week**, with ten year yields rising by 13bps in Germany, 15bps in the US and 30bps in the UK.
- **The Bank of England has become the latest central bank to catch markets off-guard, by warning that a rate hike is likely in the coming months.** Futures contracts at the start of September were not pricing in a UK rate hike until the second half of 2019. The Canadian and Czech Central Banks had already surprised markets with rate hikes over the summer, while the three rate hikes by the Fed in the last three quarters were also not anticipated. Markets seem reluctant to take on board the fact that monetary policy is slowly but surely turning less accommodative as growth improves and labour markets tighten. The main risk for markets remains the US where just two further Fed rate hikes have been priced in over the next two years.
- In that regard, **this week’s Fed meeting, which includes updated economic and interest rate projections and a press conference from Chair Yellen, is a key market event.** The indications from the Fed, and the general market expectation, is that the FOMC will announce the start of the process of reducing its balance sheet. In terms of interest rates, the Fed has been guiding that it will hike rates once more before the end of this year. Markets have been sceptical on this given the weakness of US inflation in recent months. The Fed has been indicating that rates could rise to 3% by end 2019, compared to the 1.75% now priced into markets. There may be a modest scaling back of the Fed’s rate projections given the aforementioned subdued inflation figures published over the summer months. **Markets will be closely analysing these projections (‘dots’) to see if the Committee has moved a bit closer to their more cautious view on rates.**
- **In terms of the US data schedule, the flash September PMIs will be looked to for indications of any potential negative impact on the economy from the recent extreme weather conditions.** The market consensus is for little change to either the manufacturing or services indices, though given the circumstances, a downside surprise cannot be ruled out. We also get a number of updates on the housing market, including existing home sales for August. They are anticipated to remain at a relatively solid level. Housing starts are forecast to pick up slightly in August, while remaining at subdued levels. NAHB sentiment for September is also set to feature.

- **We get a number of important survey data releases for September in the Eurozone, including the flash PMIs.** The composite index has pointed to some moderation in growth in the last couple of months, while remaining solid. It looks set to be little changed in September. Meantime, the flash EC measure of Eurozone consumer confidence is expected to edge up, from an already very encouraging level.



- **In the UK, retail sales for August are the main release of a light data schedule.** They are forecast to record another modest increase in the month, as the sector continues to expand, despite squeezed household incomes as a result of inflation outpacing earnings growth. **In terms of Brexit, UK Prime Minister May will deliver a detailed “update on Brexit negotiations so far” in a potentially crucial speech in Florence on Friday.** Also of importance this week will be a speech by BoE Governor Carney on Monday. Markets will be looking to him for further insights into the hawkish tone from last week’s BoE meeting. **Finally, in Ireland we get the QNHS for Q2.** Year-on-year growth in employment is likely to have remained strong, while unemployment seems set to have fallen further.

	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2017	2018	2018
Fed Funds	1.125	1.125	1.375	1.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.25	0.50	0.50	0.50
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	End Q1	End Q2
		2017	2018	2018
EUR/USD	1.1963	1.20	1.18	1.16
EUR/GBP	0.8803	0.90	0.89	0.87
EUR/JPY	132.68	132	131	131
GBP/USD	1.3585	1.33	1.33	1.33
USD/JPY	110.89	110	111	113

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lautenschläger (Monday); Draghi , Praet (Thursday); Constancio, Cœuré (Friday)		
	Fed Speakers:	Williams, George, Kaplan (Friday)		
	BoE Speakers:	Carney (Monday)		
Mon 18th	JPN:	Respect the Aged Day (Market Holiday)		
	EU-19: 10.00	Final HICP (August) - Ex-Food & Energy	(+1.5%) (p) (+1.3%) (p)	(+1.5%) (+1.3%)
	US: 15.00	NAHB Homebuilders' Sentiment (September)	68	67
Tue 19th	EU-19: 09.00	Current Account (July)	€21.2bn	
	GER: 10.00	ZEW Economic Sentiment (September)	10.0	12.5
	US: 13.30	Housing Starts (August) - Building Permits	-4.8% / 1.155m s.a.a.r. -3.5% / 1.230m s.a.a.r.	+2.2% / 1.180m -0.8% / 1.220m
	US: 13.30	Import / Export Prices (August)	+0.1% / +0.4%	+0.3% / +0.2%
Wed 20th	JPN: 00.50	Trade Balance (August) - Exports	¥418.8bn (+13.4%)	¥93.9bn (+14.7%)
	GER: 07.00	PPI (August)	+0.2% (+2.3%)	+0.1% (+2.5%)
	UK: 09.30	Retail Sales (August)	+0.3% (+1.3%)	+0.2% (+1.1%)
	US: 15.00	Existing Home Sales (August)	-1.3% / 5.44m s.a.a.r.	+0.1% / 5.45m
	US: 19.00	Fed Interest Rate Announcement	1.125%	1.125%
	US: 19.30	Fed Press Conference		
Thurs 21st	JPN: 02.00	BoJ Interest Rate Announcement	-0.1% - 0%	-0.1% - 0%
	UK: 09.30	PSNB Ex Interventions (August)	Aug'16: £6.87bn	£7.20bn
	US: 13.30	Initial Jobless Claims (w/e 16th of September)	284,000	
	US: 13.30	Philly Fed Business Index (September)	18.9	18.0
	EU-19: 15.00	Flash EC Consumer Confidence (September)	-1.5	-1.5
Fri 22nd	UK:	UK Prime Minister May Delivers Key Brexit Update Speech		
	FRA: 08.00	Flash Markit Composite PMI (September)	55.2	55.1
	GER: 08.30	Flash Markit Composite PMI (September)	55.8	55.9
	EU-19: 09.00	Flash Markit Composite PMI (September) - Manufacturing / Services	55.7 57.4 / 54.7	55.6 57.2 / 54.8
	UK: 11.00	CBI Industrial Orders (September)	13	10
	IRL: 11.00	QNHS - Employment (Q2)	(+3.5%)	(+3.2%)
	BEL: 14.00	NBB Leading Business Indicator (September)	-2.1	-1.8
	US: 14.45	Flash Markit Manufacturing PMI (September) - Services	52.8 56.0	53.2 56.0

◆ 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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