Weekly Market Brief

AIB Treasury Economic Research Unit

24th-28th September 2018

It's the economy, stupid!

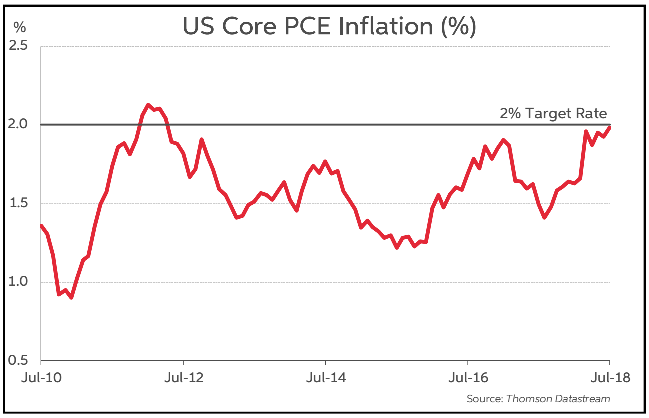
- **Markets' resistance to robust US economic data has crumbled in the past month. American stock markets have powered to record highs in recent days, while ten year Treasury yields have vaulted back above the 3% level last seen in May.** This occurred in a week that saw the US and China both impose further tariffs on imports. However, concerns over trade and other downside risks to global growth are being swamped in a tsunami of robust data on the US economy. As a result, markets are being forced to move closer to the Fed's view that rates will need to continue to be hiked through 2019 and in 2020. Markets are now pricing in two rate hikes for 2019, on top of the two that the Fed is expected to deliver over the balance of this year. This would take the funds rate up to 2.875%. The view of markets at the end of 2017 was that US rates would top out at around 2%!

- The dollar has given back some gains in recent weeks, despite the continuing robust US data and rising US bond yields. This is not surprising as there have been signs of improving growth elsewhere also, while yields have been on the rise in all the main bond markets over the past month. Concerns have also eased somewhat about emerging markets. **Thus, the flight-to-quality flows that boosted the dollar and yen over the summer have abated – the yen has fallen by over 5% against the euro in the past month.**

- **The US economy could well remain the key driver of financial markets over the balance of the year.** There should be good support for US bonds at around the 3.10-3.12% yield level on ten year Treasuries that was hit earlier in the year. If this gives way, it would open up a move to the 3.3-3.4% ten year yield levels last seen back in 2011. Markets would need to price in even further Fed tightening, with the funds rate going above 3%, for this to occur. A continuation of robust US economic growth and rising wage inflation would lay the ground for such a move. It will be interesting in this regard, to see how hawkish the Fed sounds at this week's FOMC meeting.

- **The Fed meeting concludes on Wednesday and it is expected that rates will be hiked by 25bps, leaving the target range at 2.0-2.25%.** Given that hikes this week and in December are widely anticipated, the medium term policy outlook will be of greater interest to markets. Futures contracts point towards two rate increases in 2019. This is in contrast to current Fed guidance, with the FOMC indicating it will raise rates three times next year and once again in 2020. Therefore, the market will be looking for updated Fed views on the projected path for rates. We expect that persistent strong data in the US in the coming months could see markets continue to move more closely into line with Fed thinking.

- **Data-wise, the Fed's preferred core-PCE measure of inflation for August is the main release in the US.** Inflation has crept up to hit its 2% target recently and the market consensus is that it remained at this level in August. Meanwhile, an update on the consumer side of the economy will be provided in the form of personal consumption figures for August, which are forecast to have recorded another healthy increase.



- **There is a busy release calendar this week in the Eurozone.** The EC sentiment indices for September are due. It is envisaged that the headline Economic Sentiment Index will remain broadly in line with last month's reading, indicating that economic growth continues at a solid pace. At a national level, the German Ifo is expected to dip slightly, following a number of months of improvements. Flash HICP Eurozone figures for September are also set to feature. The market consensus is that the headline rate will rise to 2.1%. Similarly, the core measure is expected to have increased to 1.3%, still a very subdued level. **In the UK, CBI survey data for September is the main release in a very light schedule.** There are also numerous ECB and BoE speakers this week, including Mr. Draghi and Mr. Carney.

Interest Rate Forecasts

	Current	End Q3 2018	End Q4 2018	End Q1 2019
Fed Funds	1.875	2.125	2.375	2.625
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	1.1747	1.15	1.16	1.17
EUR/GBP	0.8989	0.90	0.89	0.88
EUR/JPY	132.26	127	126	126
GBP/USD	1.3065	1.28	1.30	1.33
USD/JPY	112.56	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

AIB

AIB Treasury Economic Research

Oliver Mangan
Chief Economist

John Fahey
Senior Economist

Dara Turnbull
Economist

ECONOMIC DIARY

Monday 24th—Friday 28th September 2018

Date	*UK & Irish Time (GMT+1)*		*Release*	*Previous*	*Forecast*
This Week:	**ECB Speakers:**		**Draghi** (Monday); Coeure, Makuch, Praet (Tuesday); **Draghi**, Mersch, Smets (Wednesday); **Draghi**, Praet (Thursday); Lane, Praet (Friday)		
	BoE Speakers:		Vlieghe (Tuesday); **Carney**, Haldane (Thursday); Ramsden (Friday)		
	Fed Speakers:		Barkin, Williams (Friday)		
Mon 24th	**GER:**	09.00	Ifo Business Climate (September)	103.8	103.2
	UK:	11.00	CBI Industrial Orders (September)	7	
Tue 25th	**FRA:**	07.45	INSEE Business Climate (September)	110	109
	US:	14.00	Case-Shiller House Prices (July)	(+6.3%)	(+6.2%)
	US:	15.00	Consumer Confidence (September)	133.4	132
Wed 26th	**FRA**	07.45	Consumer Confidence (September)	97	97
	UK:	11.00	CBI Distributive Trades (September)	29	
	US:	15.00	New Home Sales (August)	-1.7% / 0.627m s.a.a.r	+0.5% / 0.634m
	US:	19.00	Fed Interest Rate Announcement	1.75% - 2.0%	2.0% - 2.25%
	US:	19.30	Fed Press Conference		
Thurs 27th	**UK:**	06.00	Nationwide House Prices (September)	-0.5% (+2.0%)	+0.2% (+1.9%)
	GER:	07.00	GfK Consumer Sentiment (October)	10.5	10.5
	ITA:	09.00	ISTAT Business Confidence (September)	104.8	104.5
	ITA:	09.00	Consumer Confidence (September)	115.2	114.9
	EU-19:	09.00	M3 Money Supply (August)	(+4.0%)	(+3.9%)
	EU-19:	10.00	EC Business Climate (September)	1.22	1.19
	EU-19:	10.00	EC Economic Sentiment (September)	111.6	111.2
			- Industrial / Services / Consumer	5.5 / 14.7 / -2.9	5.1 / 14.6 / -2.9
	GER:	13.00	Preliminary HICP (September)	(+1.9%)	(+1.9%)
	US:	13.30	Durable Goods Orders (August)	-1.7%	+1.8%
	US:	13.30	GDP (Q2: Final Reading)	+4.2% s.a.a.r.	+4.2%
	US:	13.30	Advanced Goods Trade Balance (August)	-$72.05bn	
	US:	13.30	Initial Jobless Claims (w/e 17th September)	201,000	210,000
	US:	15.00	Pending Home Sales Index (August)	-0.7% / 106.2	+0.1% / 106.3
Fri 28th	**UK:**	00.01	Gfk Consumer Confidence (September)	-7	-8
	JPN:	00.30	Unemployment / Jobs: Applicants (August)	2.5% / 1.63	2.5% / 1.63
	JPN:	00.50	Preliminary Industrial Output (August)	-0.2%	+1.5%
	FRA:	07.45	Consumer Spending (August)	+0.1%	+0.2%
	FRA:	07.45	Preliminary HICP (September)	(+2.6%)	(+2.6%)
	GER:	08.55	Unemployment (September)	5.2%	5.2%
	UK:	09.30	GDP (Q2: Final Reading)	+0.4% (+1.3%) (p)	+0.4% (1.3%)
	ITA:	10.00	Preliminary HICP (September)	(+1.6%)	(+1.7%)
	EU-19:	10.00	Flash HICP (September)	(+2.0%)	(+2.1%)
			- Ex-Food and Energy	(+1.2%)	(+1.3%)
	IRL:	***11.00***	***Retail Sales (August)***	***+6.5% (+5.5%)***	***-1.6% (+6.0%)***
	US:	13.30	Personal Income / Consumption (August)	+0.3% / +0.4%	+0.4% / +0.3%
			- Core PCE Prices	(+2.0%)	(+2.0%)
	US:	15.00	Final Michigan Consumer Sentiment (Sept.)	100.8 (p)	100.6

♦ *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