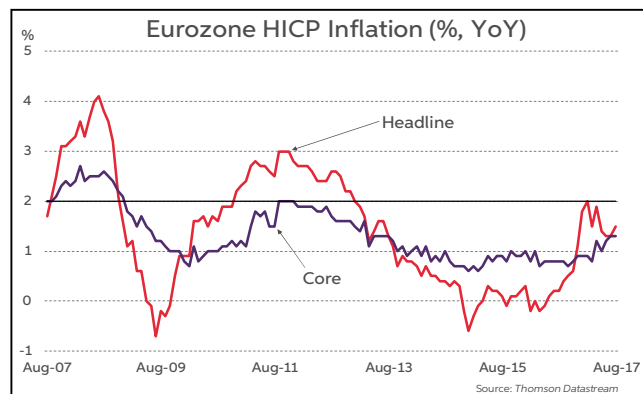


Hawks still circling the Fed

- **The September FOMC meeting was more hawkish than many market participants seem to have been expecting.** The Fed is still suggesting that it is likely to do one further hike this year. Meanwhile, it continues to project three more hikes in 2018, bringing rates to 2.125% by end year. It has slightly revised down its outlook for 2019, expecting rates to finish the year at 2.75%, as opposed to the 3% indicated back in June.
- **The market, though, remains sceptical about the extent of rate hikes from the Fed over the next 2-3 years. However, it has moved in the past couple of weeks to price in the next rate hike by March instead of December 2018,** while it now sees rates rising to around 1.75% by end 2019 instead of the 1.5% expected at the start of the month. The dollar has found support from the hardening of market expectations in regard to rates, while bond yields have risen, with 10-year Treasury yields climbing by 25bps in the past fortnight.
- There is still a gap of 1% between where the Fed and the market see rates at end 2019. **If the Fed follows through with its indicated policy tightening path, then the dollar could find the support it has lacked for most of this year,** while bond yields can be expected to rise further. Meanwhile, elevated US stock markets could see a downward correction. The degree to which President Trump's planned tax cuts are progressed in the next few months could be a key factor in influencing markets' expectations on interest rates.
- **Looking at the schedule for the coming week, most of the main releases are due in the Eurozone.** This includes flash HICP data for September. The unwinding of base effects from higher oil prices as well as the relative strength of the euro has seen Eurozone inflation fall back significantly from February's high of 2%. However, it did pick-up from 1.3% to 1.5% in August and it is forecast to edge up further to 1.6% in September. Although, the ECB does not expect inflation to return sustainably to its target of close to, but below, 2% until 2020 at the earliest.
- **We also get a further raft of Eurozone survey data for September.** The EC economic sentiment index has continued to rise recently, hitting a 10-year high in August. The EC index looks set to hit a new multi-year high in September. The German Ifo, French INSEE and Italian ISTAT indices are also due this week. They are predicted to point to continuing solid growth in the Eurozone's three largest economies. **In terms of monetary policy, a speech by ECB President Draghi to a European parliamentary committee on Monday will warrant attention ahead of next month's Governing Council meeting,** at which the Central Bank is expected to announce QE tapering.
- **There is a consumer theme to the schedule in the US.** This includes personal consumption data for August, with a further modest increase anticipated. A recovery in consumer spending was the key driver of the strong performance by US GDP in Q2. Meantime, the timelier Conference Board and Michigan measures of US consumer confidence are expected to have remained at relatively strong levels in September. **Core PCE inflation is forecast to have held at 1.4% in August, still well below the Fed's 2% target rate.** However, last week's updates from the Fed suggested that the Central Bank was not overly concerned about the softening in price pressures over the summer months.
- **There is a distinct lack of 'top-tier' data due in the UK this week.** Indeed, the final reading of Q2 GDP is the main release of note. It is expected to show no change, confirming modest quarterly growth of +0.3%. CBI trades, Gfk consumer confidence (both September) and BoE mortgage approvals (August) also feature.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2017	2018	2018
Fed Funds	1.125	1.375	1.375	1.625
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	1.1976	1.20	1.18	1.16
EUR/GBP	0.8873	0.90	0.89	0.87
EUR/JPY	134.06	132	131	131
GBP/USD	1.3493	1.33	1.33	1.33
USD/JPY	111.93	110	111	113

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Draghi (Monday); Makuch (Tuesday)		
	Fed Speakers:	Dudley, Evans, Kashkari (Monday); Mester, Bostic, Yellen (Tuesday); Kashkari, Brainard, Rosengren (Wednesday); George (Thursday); Harker (Friday)		
Mon 25th	GER:	09.00 Ifo Business Climate (September)	115.9	116.0
	US:	13.30 Chicago Fed National Activity Index (August)	-0.01	
Tue 26th	FRA:	07.45 INSEE Business Climate (September)	111	
	US:	14.00 Case-Shiller House Price (July)	+0.1% (+5.7%)	+0.2% (+5.8%)
	US:	15.00 Consumer Confidence (September)	122.9	120.0
	US:	15.00 New Home Sales (August)	-9.4% / 0.571m s.a.a.r.	+3.3% / 0.584m
Wed 27th	UK:	06.00 Nationwide House Prices (September)	-0.1% (+2.1%)	+0.2% (+2.0%)
	FRA:	07.45 Consumer Confidence (September)	103	103
	ITA:	09.00 ISTAT Business Confidence (September)	108.1	108.3
	ITA:	09.00 Consumer Confidence (September)	110.8	110.7
	EU-19:	09.00 M3 Money Supply (August)	(+4.5%)	(+4.6%)
	UK:	09.30 GDP (Q2: Final Reading)	+0.3% (+1.7%)	+0.3% (+1.7%)
	UK:	11.00 CBI Distributive Trades (September)	-10	-10
	US:	13.30 Durable Goods (August)	-6.8%	+1.0%
	US:	15.00 Pending Home Sales Index (August)	-0.8% / 109.1	-0.3% / 109.4
	NZL:	21.00 RBNZ Interest Rate Announcement	1.75%	
Thurs 28th	GER:	07.00 Gfk Consumer Sentiment (October)	10.9	11.0
	EU-19:	10.00 EC Business Climate (September)	1.09	1.11
	EU-19:	10.00 EC Economic Sentiment (September)	111.9	112.0
		- Industrial / Services / Consumer	5.1 / 14.9 / -1.2	5.1 / 14.9 / -1.2
	IRL:	11.00 Retail Sales (August)	+11.9% (+2.1%)	-6.0% (+3.1%)
	GER:	13.00 Preliminary HICP (September)	(+1.8%)	(+1.8%)
	US:	13.30 GDP (Q2: Final Reading)	+3.0% s.a.a.r.	+3.0%
	US:	13.30 Goods Trade Balance (August)	-\$63.86bn	
	US:	13.30 Initial Jobless Claims (w/e 23rd September)	259,000	265,000
Fri 29th	UK:	00.01 Gfk Consumer Confidence (September)	-10	-11
	JPN:	00.30 CPI: Nationwide (August) / Tokyo (September)	(+0.4%) / (+0.5%)	
	JPN:	00.30 Unemployment / Job : Applicants (August)	2.8% / 1.52	2.8% / 1.53
	JPN:	00.50 Industrial Output (August)	-0.8%	+1.9%
	GER:	07.00 Retail Sales (August)	-1.2% (+2.7%)	+0.5% (+3.3%)
	FRA:	07.45 Consumer Spending (August)	+0.7%	+0.3%
	FRA:	07.45 Preliminary HICP (September)	(+1.0%)	(+1.1%)
	GER:	09.00 Unemployment (September)	5.7%	5.7%
	UK:	09.30 BoE Mortgage Approvals (August)	68,690	67,750
	ITA:	10.00 Preliminary HICP (September)	(+1.4%)	(+1.3%)
	EU-19:	11.00 Flash HICP (September)	(+1.5%)	(+1.6%)
		- Ex-Food & Energy	(+1.3%)	(+1.2%)
	US:	13.30 Personal Income / Consumption (August)	+0.4% / +0.3%	+0.2% / +0.1%
		- Core PCE Prices	+0.1% (+1.4%)	+0.2% (+1.4%)
	US:	14.45 Chicago PMI (September)	58.9	59.0
	US:	15.00 Final Michigan Consumer Sent (September)	95.3	95.1

◆ 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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.