

## More hikes expected from the Fed and BoE in 2018

A key development in 2017 was a shift towards monetary tightening in a number of countries. The Fed followed through on its interest rate projections (with 3 hikes) for the first time in its current tightening cycle. The BoE had to reverse its post-referendum 25bps rate cut due to the persistence of above target inflation. There were also rate hikes in Canada and the Czech Republic. In contrast, both the BoJ and ECB continued to implement ultra accommodative policy, though the ECB did remove its easing bias on rates, while also announcing a reduction in its rate of monthly asset purchases.

Looking ahead to 2018, the Fed is signalling that it will implement three more 25bps rate hikes, bringing the fed funds rate to 2.125% by end year. While the market has become more hawkish on the US interest rate outlook over recent months, there is still a gap between the market and the Fed's projections. Based on current futures contracts, the market is pricing in around 2 hikes in 2018.

In the UK, the December BoE meeting indicated that it is content with its current policy stance, with the bank rate at 0.5%. There was no indication that any further rate hike was imminent. However, it continued to point out that further "modest increases" in interest rates would be needed to return inflation (currently at 3.1%) to its 2% target. UK futures contracts imply that the market expects the next rate hike towards the end of 2018.

Meanwhile, the ECB has indicated that from January its monthly QE purchases will reduce to €30bn per month, lasting until at least September. The ECB may then reduce this further in Q4 and conclude net purchases by year end. The Central Bank has continued to emphasise rates will be kept at their current low levels (i.e. depo at -0.4%, refi at 0%) well past this point in time, implying no rate hikes until 2019 at the earliest.

**John Fahey, Senior Economist, AIB**

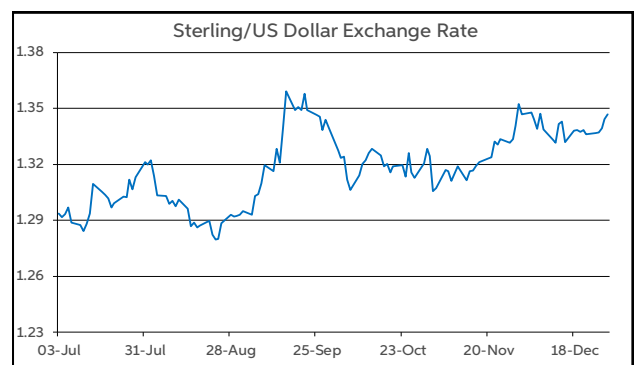
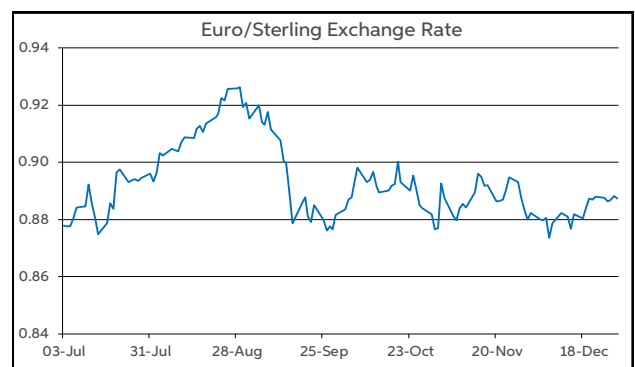
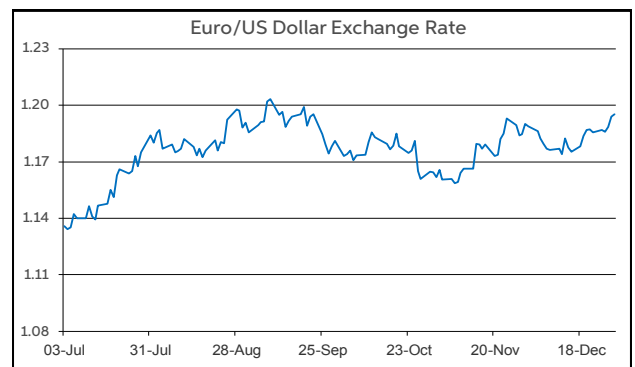
Opening Interest Rates						
	Base Rate	Short Term			Long Term	
		1-Mth	3-Mth	12-Mth	2-Yr	5-Yr
USD	1.375	1.57	1.69	2.11	2.10	2.26
EUR	0.00	-0.37	-0.33	-0.19	-0.15	0.33
GBP	0.50	0.49	0.52	0.77	0.80	1.05

Equity Indices				
	Latest Close	% Changes		
		on Day	End 2016 to Date	
Dow Jones	24837.51	+0.26	+25.68	
S&P 500	2687.54	+0.18	+20.04	
FTSE 100	7622.88	+0.03	+6.72	
DJ Stoxx 50	3524.31	-0.73	+7.10	
ISEQ	7051.38	+0.34	+8.20	
Nikkei	22764.94	-0.08	+19.10	

Today's Opening Rates			
		% Change	
		Day *	End 2016
EUR/USD	1.195	0.17	13.67
EUR/GBP	0.8873	-0.03	4.17
GBP/USD	1.3468	0.22	9.18
GBP/EUR	1.1267	0.03	-4.00
USD/JPY	112.7	-0.06	-3.57
EUR/JPY	134.72	0.12	9.40

\* v Previous Day's European Open

See Next Page for More Rates >>>



All rates quoted are indicative market rates

See Next Page For More Rates & Charts

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# Opening Levels

Friday 29 December 2017  
07:29 am



## Euro

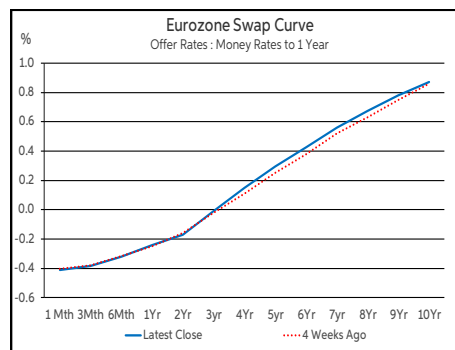
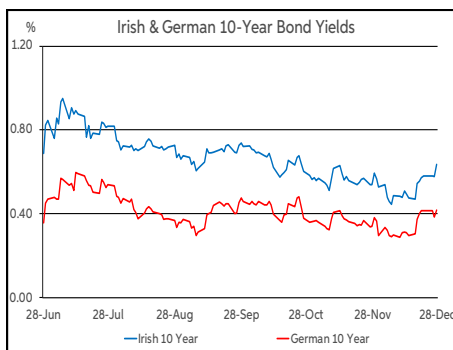
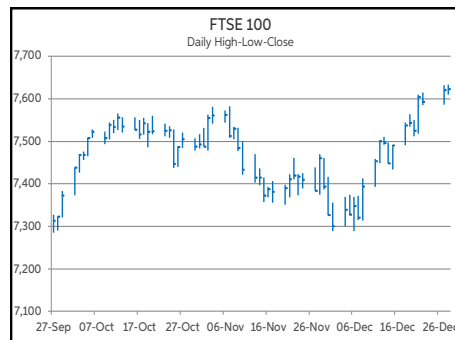
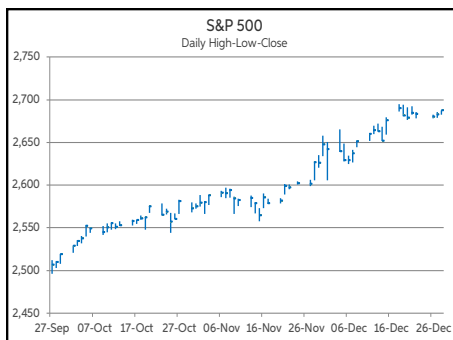
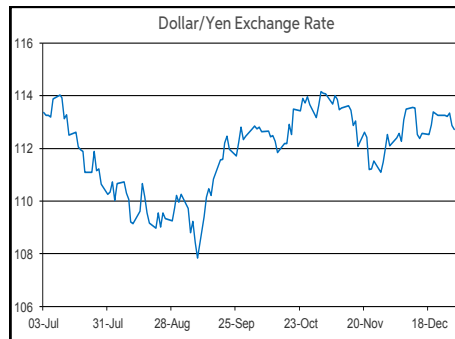
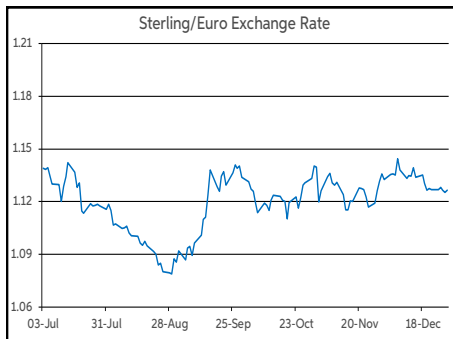
EUR/GBP	0.8873
EUR/USD	1.1952
EUR/JPY	134.72
EUR/SEK	9.854
EUR/DKK	7.4451
EUR/NOK	9.8469
EUR/CHF	1.1683
EUR/AUD	1.5332
EUR/HKD	9.3389
EUR/CAD	1.4994

## Sterling

GBP/EUR	1.1267
GBP/USD	1.3468
GBP/CAD	1.6903
GBP/NZD	1.8965
GBP/JPY	151.78
GBP/SEK	11.1017
GBP/DKK	8.3895
GBP/NOK	11.0976
GBP/CHF	1.3165
GBP/AUD	1.7276

## Dollar

USD/JPY	112.7
USD/CAD	1.2548
USD/CHF	0.9774
USD/CNY	6.5075
USD/BRL	3.3121
USD/RUB	57.655
USD/INR	63.88
AUD/USD	0.7794
NZD/USD	0.7101



Debt Markets				
	Close	Change bps		
		Day	4 Weeks	End 16
<b>10 Year Yield %</b>				
US	2.43	+2	+2	-1
Germany	0.42	+3	+5	+22
UK	1.19	+2	-13	-4
<b>5 Year Swap %</b>				
US	2.25	+0	+5	+29
Eurozone	0.30	-2	+5	+22
UK	1.04	+1	-10	+16
<b>2 Year Swap %</b>				
US	2.05	-3	+8	+61
Eurozone	-0.17	-3	-1	-1
UK	0.79	-1	-8	+19
<b>10 Year Government Bond Spreads to Benchmark bps</b>				
Ireland	22	+2	+2	-33
Belgium	19	+1	-1	-12
France	33	+1	+2	-14
Italy	152	+0	+15	-9
Spain	108	+2	+1	-9
Portugal	144	+2	-5	-209
Greece	360	-3	-134	-308

Commodities				
	Close	% Change		
		Day	4 Weeks	End 16
Brent Oil	66.72	+0.42	+4.96	+17.42
West Texas Oil	59.84	+0.28	+4.25	+11.33
CRB - All Commodity	193.04	+0.82	+2.05	+0.28
CRB - Food	336.11	-0.17	-2.58	-0.78
Gold \$	1294.9	+0.55	+1.55	+12.38

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