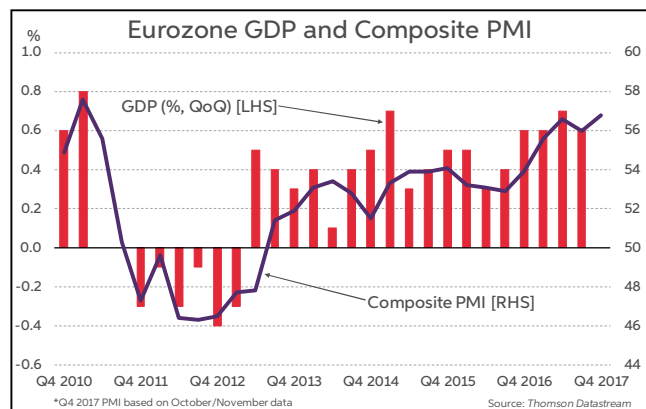


White Smoke

- **With agreement reached between the UK and EU negotiating teams in relation to ‘phase one’ of the Brexit talks, this week’s EU Leaders Summit will likely give the go-ahead to move onto the next phase of negotiations.** EU Council President Donald Tusk has stated that he will propose to the leaders that talks should now start on the transition period as well as discussions on the future trading relationship. Sterling made modest gains on the back of the latest developments. Although, the move below the key 87.5p level against the euro was not sustained on Friday. However, President Tusk also stressed that the “most difficult challenge is still ahead” with less than a year left in reality to agree on a “transition arrangement” and a “framework” for future trade relations. This means that **sterling will remain highly sensitive to the ebb and flow of the Brexit talks.**
- However, **with less uncertainty now heading into the Summit, the focus for markets is likely to turn towards monetary policy** with the Fed, ECB and BoE all having their December policy setting meetings this week. **The main focus will be the Fed, with markets expecting a 25bps rate hike, bringing the fed funds rate to 1.375%.** This would represent the third 25bps hike this year. The Fed has also started to reduce the size of its balance sheet which is another form of policy tightening. It is important to note that 2017 represents the first time in this tightening cycle (started in December 2015) that the Fed has been able to following through on its projections.
- **Therefore, of greater interest for Fed watchers this week may be the Central Bank’s update projections.** The most recent Fed projections (September) show the FOMC expected rates to rise to 2.75% by end 2019, with futures contracts currently suggesting markets anticipate rates to rise less sharply, to 2%. Markets will be looking to see if there is any upgrade to the Fed’s growth/inflation outlook and, in turn, any changes to its interest rate guidance. Fed Chair Yellen will be delivering her last post-meeting press conference.
- **The ECB meeting is likely to be a less compelling affair, with no changes to interest rates anticipated.** However, President Draghi’s press conference will be looked to for further insights into the potential timeframe for the phasing out of QE. Markets will also be focusing on updated ECB staff macroeconomic projections.
- **After hiking rates in November, in order to tackle above target inflation, no further policy changes are anticipated by the BoE this week.** The meeting minutes, which accompany the policy decision, will be combed through for any updated economic and policy views, particularly given the progress on Brexit talks and the resulting impact on sterling.
- There is also a busy data schedule this week. **The key Eurozone release will be the flash December PMIs.** They are expected to edge lower in the month, while still pointing to an improved pace of growth in Q4.
- **In the UK, employment is expected to decline by 10k in the three months to October,** having recorded a fall of 14k in the three months to September. Despite this, the unemployment rate looks set to have remained at a 42-year low of 4.3%. Average earnings growth is forecast to pick up to 2.4% in October. Retail sales and CPI inflation for November will also garner some attention in the coming days.
- **November retail sales also feature in the US, with a further healthy increase (+0.3%) expected.** Industrial production is anticipated to record another solid rise (+0.4%). In terms of survey data, the flash US PMIs for December should remain at solid levels, pointing to a steady pace of growth in Q4. **Finally, Irish Q3 GDP is due.** Data in the quarter suggest that year-on-year growth should remain strong, perhaps around 5-6%.



	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	0.50	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	1.1752	1.17	1.16	1.15
EUR/GBP	0.8764	0.88	0.88	0.87
EUR/JPY	133.32	132	132	132
GBP/USD	1.3408	1.33	1.32	1.32
USD/JPY	113.43	113	114	115

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:				
Mon 11th	JPN:	23.50 Domestic Wholesale Prices (November)	(+3.4%)	
Tue 12th	UK:	09.30 CPI (November)	+0.1% (+3.0%)	+0.2% (+3.0%)
		- Ex-Food & Energy	0.0% (+2.7%)	+0.2% (+2.7%)
	UK:	09.30 PPI Output (November)	0.2% (+2.8%)	+0.3% (+3.9%)
		- Input	+1.0% (+4.6%)	+1.6% (+6.8%)
	GER:	10.00 ZEW Economic Sentiment (December)	18.7	17.4
	IRL:	11.00 Residential Property Prices (October)	+2.0% (+12.8%)	+1.0% (13.2%)
	US:	11.00 NFIB Small Business Optimism (November)	103.8	
	US:	13.30 PPI (November)	(+2.8%)	(+3.0%)
	JPN:	23.50 Core Machinery Orders (October)	(-3.5%)	(+3.0%)
Wed 13th	GER:	07.00 Final HICP (November)	(+1.8%) (p)	(+1.8%)
	ITA:	09.00 Industrial Output (October)	-1.3%	+0.6%
	UK:	09.30 Employment (3 Months to October)	-14,000	-10,000
		- ILO Unemployment	4.3%	4.3%
	UK:	09.30 Average Weekly Earnings (3 Months to October)	(+2.2%)	(+2.4%)
		- Ex-Bonus	(+2.2%)	(+2.2%)
	EU-19:	10.00 Employment (Q3)	+0.4% (+1.6%)	+0.4% (+1.7%)
	EU-19:	10.00 Industrial Production (October)	-0.6% (+3.3%)	0.0% (+3.4%)
	US:	13.30 CPI (November)	+0.1% (+2.0%)	+0.4% (+2.2%)
		- Ex-Food & Energy	+0.2% (+1.8%)	+0.2% (+1.8%)
	US:	19.00 Fed Interest Rate Announcement	1.00-1.25%	1.25-1.50%
	US:	19.30 Fed Press Conference		
Thurs 14th	EU-28:	EU Leaders' Summit (continues to Friday 15th)		
	UK:	00.01 RICS House Price Survey (November)	1	1
	CHINA:	02.00 Industrial Output (November)	(+6.2%)	(+6.0%)
	FRA:	07.45 Final HICP (November)	(+1.3%) (p)	(+1.3%)
	FRA:	08.00 Flash Markit Composite PMI (December)	60.3	59.5
	GER:	08.30 Flash Markit Composite PMI (December)	57.3	57.3
	EU-19:	09.00 Flash Markit Composite PMI (December)	57.5	57.2
		- Manufacturing / Services	60.1 / 56.2	59.6 / 56.0
	UK:	09.30 Retail Sales (November)	+0.3% (-0.3%)	+0.4% (+0.3%)
	IRL:	11.00 CPI (November)	-0.1% (+0.6%)	+0.1% (+0.8%)
	UK:	12.00 BoE Interest Rate Announcement	0.50%	0.50%
	EU-19:	12.45 ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.40%	-0.40%
	EU-19:	13.30 ECB Press Conference		
	US:	13.30 Initial Jobless Claims (w/e 9th December)	236,000	240,000
	US:	13.30 Retail Sales (November)	+0.2%	+0.3%
		- Ex-Autos	+0.1%	+0.6%
		- Ex-Gas, Autos & Building Materials	+0.3%	+0.3%
	US:	14.45 Flash Markit Manufacturing PMI (December)	53.9	54.0
		- Services	54.5	55.0
	JPN:	23.50 Tankan Big Manufacturing (Q4)	22	24
		- Non-manufacturing	23	23
Fri 15th	EU-19:	10.00 International Goods Trade Balance (October)	€26.4bn	
	IRL:	11.00 Quarterly National Accounts-GDP (Q3)	(+5.8%)	(+5.6%)
	US:	13.30 NY Fed/Empire State Index (December)	19.4	19.3
	US:	14.15 Industrial Production (November)	+0.9%	+0.4%
		- Capacity Utilisation	77.0%	77.2%

◆ 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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