

Learning to Fly

■ **The late, great Tom Petty wrote “I’m learning to fly, but I ain’t got wings.** Coming down is the hardest thing. Well the good ol’ days may not return...What goes up must come down”. **His lyrics could be applied to the very anaemic recovery of the world economy to date in this decade** following the deep recession of 2008-09. However, it may well be that as Tom departs the stage, the global recovery is at last finding its wings.

■ **Data published in the past week have been very strong in most of the major economies, pointing to a recovery that is gathering momentum.** The ISM non-

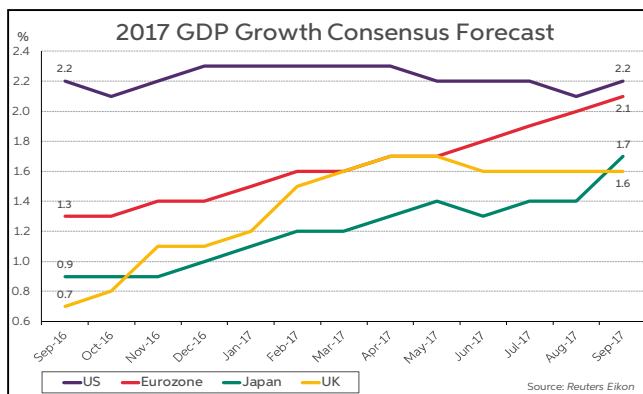
manufacturing index in the US hit a 12-year high in September, the Eurozone composite PMI was up near a 6-year high. In Japan, the key quarterly Tankan business survey reached a 10-year high, with China’s official manufacturing PMI at its highest level in 5 years in September also. Oil prices have also started to rise again recently on signs of a pick-up in demand as economic growth strengthens. **The more positive data are reflected in further upward revisions to growth expectations in most major economies in recent months.**

■ Despite subdued inflation, the overall firm US macro data seem to have convinced the Fed to ‘stick to its guns’ regarding the outlook for interest rates in the next couple of years, including another hike before year end. **This week, markets will be analysing the minutes of the FOMC’s September meeting as they look for further insights into the discussion around monetary policy.** The Fed’s upbeat tone at the meeting saw markets adopt a somewhat more hawkish interest rate outlook. They have now largely priced in a rate hike in December. However, they foresee rates only rising to close to 2% by end 2019, versus the Fed’s 2.75% projection.

■ **In terms of the data schedule, there is a consumer theme in the US in the coming days.** Retail sales have been somewhat disappointing in recent months, declining unexpectedly in August. However, exceptionally strong car sales in September, as well as a likely jump in sales of building materials in the aftermath of the recent tropical storms, mean a very strong increase in sales is likely in the month. The timelier October Michigan measure of consumer confidence looks set to have remained at a strong level. Meantime, US CPI inflation is forecast to have picked up to 2.3% in September, with core (ex-food & energy) inflation edging up to 1.9%. Although, figures for August did show that the Fed’s preferred core-PCE measure remained subdued at just 1.3%.

■ **In the UK, industrial output has been a source of concern in recent months,** growing by just 0.3% in the three months to July, following on from a decline of 1.2% in the previous three month period. Although, part of the weak performance has been down to factors which should prove temporary, such as a decline in pharma output. **Production is forecast to have recorded a modest 0.2% increase in August.** Meantime, despite the sharp depreciation by sterling since last year’s Brexit referendum, the UK’s goods trade deficit has not seen much improvement. It stood at £11.6bn in July and it is expected to have remained close to this level in August. The UK calendar also includes the RICS house price survey and BRC retail sales (both September).

■ **August industrial production is the highlight of a light Eurozone calendar.** In contrast to the UK, Eurozone output has performed strongly in recent months, rising by 1.3% in the three months to July versus the previous three months. This partly reflects a more robust pace of growth in capital goods, which points to rising business investment. Industrial production is forecast to have risen by 0.5% in August. **Finally in Ireland, the Minister of Finance will deliver the 2018 Budget speech at 1pm on Tuesday.** He is expected to announce small tax cuts, limited spending increases and is likely to be able to come close to completely eliminating the budget deficit.



	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

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q4	End Q1	End Q2
		2017	2018	2018
EUR/USD	1.1692	1.18	1.17	1.16
EUR/GBP	0.8969	0.90	0.89	0.88
EUR/JPY	132.55	132	132	132
GBP/USD	1.3032	1.31	1.31	1.32
USD/JPY	113.34	112	113	114

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Mersch, Lautenschläger (Monday); Praet (Wednesday); Draghi, Cœuré, Praet (Thursday); Constâncio (Friday)		
	Fed Speakers:	Kaplan, Kashkari (Tuesday); Evans (Wednesday); Rosengren, Powell, Evans, Kaplan (Friday)		
Mon 9th	JPN:	Health and Sports Day (Market Holiday)		
	US:	Columbus Day (Partial Market Holiday)		
	CHINA: 02.45	Caixin Services PMI (September)	52.7	
	GER: 07.00	Industrial Output (August)	0.0%	+0.7%
	EU-19: 09.30	Sentix Index (October)	28.2	28.5
Tue 10th	UK: 00.01	BRC Retail Sales (September)	(+1.3%)	
	JPN: 06.00	Economy Watchers' Index (September)	49.7	
	GER: 07.00	Trade Balance (August)	€19.5bn	€20.3bn
		- Exports	+0.2%	+1.0%
	FRA: 07.45	Industrial Output (August)	+0.5%	+0.5%
	ITA: 09.00	Industrial Output (August)	+0.1%	+0.2%
	UK: 09.30	Industrial Output (August)	+0.2% (+0.4%)	+0.2% (+0.8%)
		- Manufacturing	+0.5% (+1.9%)	+0.3% (+1.9%)
	UK: 09.30	Goods Trade Balance (August)	-£11.58bn	-£11.20bn
		- Non-EU	-£3.84bn	-£3.60bn
	US: 11.00	NFIB Small Business Optimism (September)	105.3	
	IRL: 13.00	Budget 2018		
Wed 11th	JPN: 00.50	Core Machinery Orders (August)	(-7.5%)	(+0.8%)
	US: 19.00	FOMC Minutes from 19th-20th September Meeting Published		
Thurs 12th	UK: 00.01	RICS House Price Survey (September)	6	5
	JPN: 00.50	Domestic Wholesale Prices (September)	(+2.9%)	(+3.0%)
	FRA: 07.45	Final HICP (September)	(+1.1%) (p)	(+1.1%)
	IRL: 11.00	Residential Property Prices (August)	+3.0% (+12.3%)	+1.5% (+12.4%)
	IRL: 11.00	CPI (September)	+0.4% (+0.4%)	-0.4% (+0.4%)
	EU-19: 11.00	Industrial Production (August)	+0.1% (+3.2%)	+0.5% (+2.5%)
	US: 13.30	Initial Jobless Claims (w/e 7th October)	260,000	254,000
	US: 13.30	PPI (September)	+0.2% (+2.4%)	+0.4% (+2.6%)
	US: 19.00	Federal Budget (September)	-\$108bn	
Fri 13th	CHINA: 02.00	Trade Balance (September)	\$41.99bn	\$39.50bn
		- Exports	(+5.5%)	(+8.8%)
	GER: 07.00	Final HICP (September)	(+1.8%) (p)	(+1.8%)
	ITA: 09.00	Final HICP (September)	(+1.3%) (p)	(+1.3%)
	US: 13.30	CPI (September)	+0.4% (+1.9%)	+0.6% (+2.3%)
		- Ex-Food & Energy	+0.2% (+1.7%)	+0.2% (+1.8%)
	US: 13.30	Retail Sales (September)	-0.2%	+1.6%
		- Ex-Autos	+0.2%	+0.4%
		- Ex-Gas, Autos & Building Materials	-0.2%	+0.4%
	US: 15.00	Business Inventories (August)	+0.2%	+0.4%
	US: 15.00	Prelim' Michigan Consumer Sentiment (October)	95.1	95.4

◆ 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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