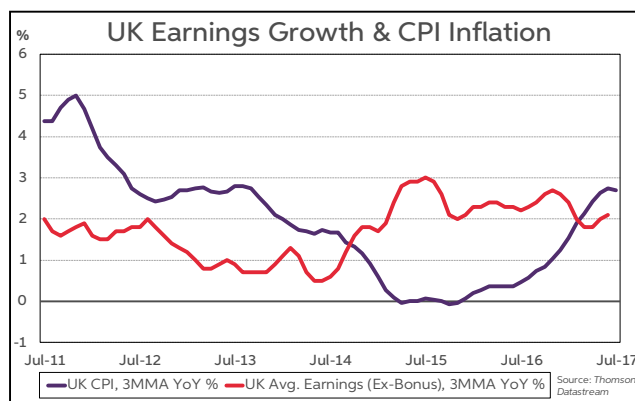


## Reeling in the Years

■ **Despite rate hikes from a number of central banks in recent months, markets still expect monetary policy to remain very loose in all the major economies.** Indeed, continuing low inflation figures over the summer have seen markets scale back the extent of rate tightening expected from central banks in the next couple of years, despite the strengthening of global economic activity in 2017. This has seen a strong rally by bonds in the third quarter, with ten year yields falling by 30-40bps in many markets since mid-year.

■ **The greatest risk to the frothy bond markets is the US.** The Fed hiked rates in each of the last three quarters, bringing the funds rate to 1.125%. It has been projecting that rates are likely to rise to 3% by end 2019. It would not be a surprise if the Fed scales back its forecasts slightly when it meets on September 19-20, given recent weak inflation data. However, markets have become very optimistic on rates recently, seeing just one 25bps hike between now and end 2019, with a second hike not priced in until end 2020, taking rates to only 1.625% by then. This seems at odds with expectations of continuing steady growth in the US, an economy that is close to full employment which may also yet receive some form of a fiscal stimulus next year, ahead of November 2018 mid-term elections. We do not expect recent bond market gains to be sustained. However, **with weak data likely in the short-term in the aftermath of severe hurricanes, market optimism may take a while to reverse.**

■ **A busy UK data calendar includes a raft of labour market data for the three months to July.** Employment is forecast to have risen by 222k, a marked improvement on the 108k rise seen in the three months to April. At the same time, the unemployment rate is anticipated to have remained at a 42-year low of 4.4%. Despite low unemployment, wage growth has remained subdued, perhaps reflecting uncertainty and higher costs related to the Brexit vote. Year-on-year growth in weekly earnings is forecast to have edged up to 2.2% (ex-bonus). Soft wage growth is of particular concern given the rise in the CPI index. While inflation slowed slightly to 2.6% in June/July, it is predicted to increase up to 2.8% in August, maintaining the squeeze on household incomes.



■ **In terms of UK monetary policy, the BoE meets this week.** Markets expect that the MPC will continue to see just two votes for an immediate hike. They will be looking to the statement/minutes to see if the BoE continues to state that “monetary policy could need to be tightened by a somewhat greater extent” than markets are expecting in the next couple of years. Futures contracts show that markets are not pricing in a hike until H2 2019. Markets will also be interested to see if the MPC comments on sterling, with the sterling trade-weighted index down near its post-Brexit vote lows, and the likely inflationary impact of this.

■ **There is a consumer theme in the US. This includes retail sales data for August, with a modest increase anticipated.** The preliminary Michigan measure of consumer sentiment is forecast to have remained at a strong level in September. Meantime, CPI inflation looks set to edge up to 1.8% in August, though remaining well off the recent high of 2.7% recorded back in February. Robust August industrial production figures are also anticipated. Meanwhile, the weekly jobless claims figures will also be closely watched after last week’s hurricane related jump.

■ **There is a light calendar in the Eurozone.** Industrial production for July is due, with a modest 0.2% increase expected. This follows on from Q2’s 1.2% increase. In terms of the labour market, we get Q2 employment and earnings. Unemployment and PMI data suggest further improvement on the jobs front in the quarter. **Finally, we get Q2 National Accounts in Ireland.** Data in the quarter suggested the economy continued to grow at a solid pace. We expect that year-on-year GDP growth to remain strong, possibly falling between 4% and 5%.

	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2017	2017	2018
Fed Funds	1.125	1.125	1.125	1.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.25	0.25	0.25	0.25
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	End Q4	End Q1
		2017	2017	2018
EUR/USD	1.2029	1.21	1.20	1.18
EUR/GBP	0.9115	0.92	0.91	0.89
EUR/JPY	129.82	131	131	131
GBP/USD	1.3192	1.32	1.32	1.33
USD/JPY	107.93	108	109	111

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lane (Friday)		
	<b>BoE Speakers:</b>	Vlieghe (Friday)		
<b>Mon 11th</b>	<b>JPN:</b> 00.50	Core Machinery Orders (July)	(-5.2%)	(-7.3%)
	<b>ITA:</b> 09.00	Industrial Output (July)	+1.1%	-0.3%
<b>Tue 12th</b>	<b>UK:</b> 09.30	CPI (August)	-0.1% (+2.6%)	0.5% (+2.8%)
		- Ex-Food & Energy	-0.1% (+2.4%)	+0.5% (+2.5%)
	<b>UK:</b> 09.30	PPI Output (August)	+0.1% (+3.2%)	+0.2% (+3.1%)
		- Input	0.0% (+6.5%)	+1.3% (+7.4%)
	<b>US:</b> 11.00	NFIB Business Optimism (August)	105.2	
	<b>IRL:</b> <b>11.00</b>	<b>Residential Property Prices (July)</b>	<b>+1.4% (+11.6%)</b>	<b>+1.5% (+10.8%)</b>
<b>Wed 13th</b>	<b>JPN:</b> 00.50	Domestic Wholesale Prices (August)	(+2.6%)	(+3.0%)
	<b>GER:</b> 07.00	Final HICP (August)	(+1.8%) (p)	(+1.8%)
	<b>UK:</b> 09.30	Employment (3 Months to July)	108,000	222,000
		- ILO Unemployment	4.4%	4.4%
	<b>UK:</b> 09.30	Average Weekly Earnings (3 Months to July)	(+1.8%)	(+2.3%)
		- Ex-Bonus	(+2.1%)	(+2.2%)
	<b>EU-19:</b> 10.00	Employment (Q2)	+0.4% (+1.5%)	
	<b>EU-19:</b> 10.00	Industrial Production (July)	-0.6% (+2.6%)	+0.2% (+3.5%)
	<b>US:</b> 13.30	PPI (August)	-0.1% (+1.9%)	+0.3% (+2.4%)
<b>Thurs 14th</b>	<b>UK:</b> 00.01	RICS House Price Survey (August)	1	-1
	<b>CHINA:</b> 03.00	Industrial Output (August)	(+6.4%)	(+6.6%)
	<b>FRA:</b> 07.45	Final HICP (August)	(+1.0%) (p)	(+1.0%)
	<b>ITA:</b> 09.00	Final HICP (August)	(+1.4%) (p)	(+1.4%)
	<b>UK:</b> 09.30	BoE Interest Rate Announcement	0.25%	0.25%
		- Meeting Minutes Published		
	<b>US:</b> 13.30	CPI (August)	+0.1% (+1.7%)	+0.3% (+1.8%)
		- Ex-Food & Energy	+0.1% (+1.7%)	+0.2% (+1.6%)
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 9th September)	298,000	
<b>Fri 15th</b>	<b>EU-19:</b> 10.00	Wages (Q2)	(+1.4%)	
	<b>IRL:</b> <b>11.00</b>	<b>GDP (Q2)</b>	<b>(+6.1%)</b>	<b>(+4.5%)</b>
	<b>US:</b> 13.30	NY Fed/Empire State Index (September)	25.2	20.0
	<b>US:</b> 13.30	Retail Sales (August)	+0.6%	+0.1%
		- Ex-Autos	+0.5%	+0.4%
		- Ex-Gas, Autos & Building Materials	+0.6%	+0.3%
	<b>US:</b> 14.15	Industrial Output (August)	+0.2%	+0.2%
		- Capacity Utilisation	76.7%	76.8%
	<b>US:</b> 15.00	Business Inventories (July)	+0.5%	+0.2%
	<b>US:</b> 15.00	Prelim' Michigan Consumer Sent' (September)	96.8	96.1

◆ 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