# Ulster Bank Weekly Economic Commentary

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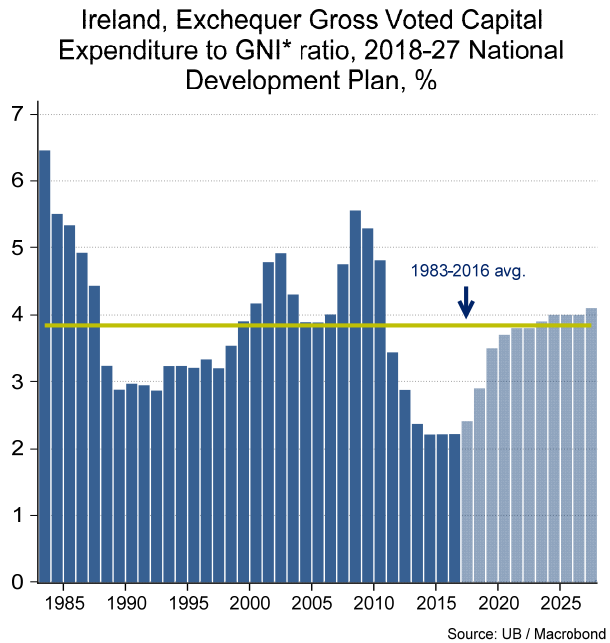
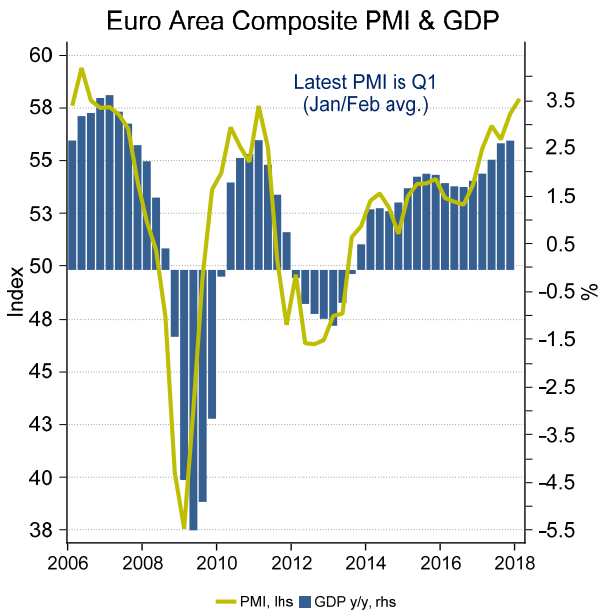
## Ireland: NDP commitment to spend 4% of nat. income on capital spending over the long term should help avoid problematic cyclicality in public investment




The National Development Plan 2018-2027 (NDP) launched late last week sets out the investment priorities required to support Ireland's long-term economic and social development. The NDP has been developed so that it is fully integrated with the National Planning Framework, marking a fresh approach that sees - remarkably for the first time in Ireland's history – a structured link between spatial planning and public investment. We broadly welcome the plan which should promote greater policy coherence and effectiveness in support of key strategic outcomes, though as ever with such large-scale initiatives, implementation will be key to success. In particular, we welcome the commitment to increase public capital investment to ca. 4% of national income (a touch above its 25-yr average, from ca. 2.3% in 2017) and maintaining it at that level thereafter. This represents helpful clarity (not least for the construction sector) on the scale of planned spending over the medium to long term, and should help avoid problematic pro-cyclicality in public investment in the future. The plan would see annual capital spending by government departments roughly double to ca. €9bn by 2022 from €4.6bn in 2017, though it is worth noting that, despite all the fanfare, the Exchequer resource commitment under the NDP over the short to medium term is little changed relative to pre-existing plans (just an extra €350m in total over 2018-21 compared to the December '17 post-Budget estimates for example).

# Eurozone: Surveys starting to come off the boil?



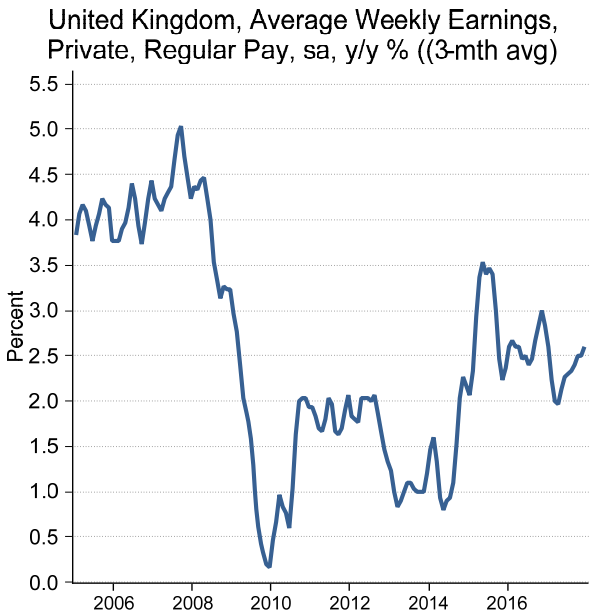

Source: UB / Macrobond

Breaking the pronounced and well-established pattern of upside surprises in recent months, this week's survey data from the Eurozone came in slightly on the disappointing side of expectations. Following very sizeable recent gains which had taken them to multi-year (in some cases multi-decade) highs, this week's February readings of the Eurozone composite PMI, consumer confidence and the German Ifo surveys all fell by a bit more than analysts had been allowing for. But this shouldn't be seen as a cause for any concern as such developments are best thought of, in our view, as being consistent with a modest cooling in the pace of improvement in economic conditions, following a period of unsustainably rapid acceleration. Indeed, we note that even after the 1.3 point decline in the composite PMI this month, the index is still higher than its average level in Q4 (which was the strongest quarter in almost 7 years) and very much consistent with a continuation of strongly above-trend GDP growth. There was little new news in the account of the January ECB meeting. The Governing Council (GC) is increasingly confident in the economic outlook, but is still somewhat cautious on inflation dynamics which are still seen as subdued. Interestingly, reflecting that confidence, some members were in favour of dropping the QE policy easing bias, though a majority deemed such a change to be premature. Watch that space though, as we expect support to build within the GC for gradual and incremental changes to forward guidance in the months ahead.





# UK: Q4 GDP disappoints; earnings growth ticks up

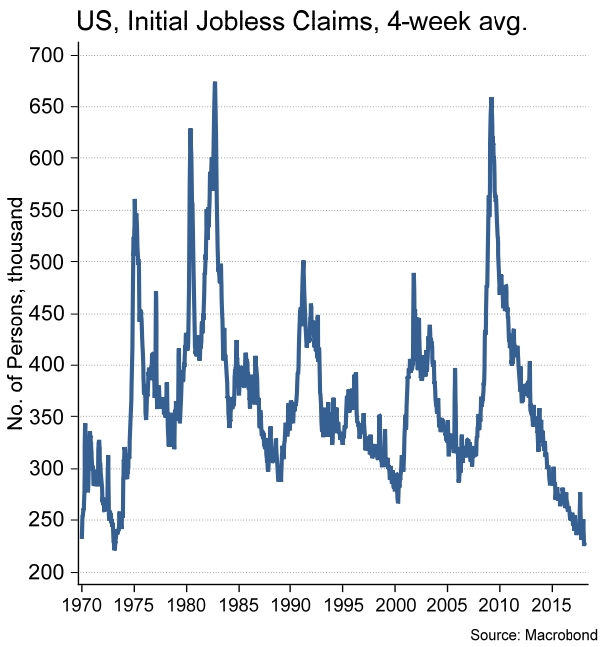



Source: UB / Macrobond

The second estimate of UK Q4 GDP revealed an unexpected downward revision to 0.4% q/q, down from the initially estimated 0.5%. This also produced a slight downward revision to the annual growth rate which now stands at 1.7%, from 1.8% previously. 1.7% growth represents a reasonably resilient performance, not just relative to the UK's own (albeit downgraded) potential growth rate of around 1.5% but also relative to consensus expectations for 1.2% growth a year ago. Nonetheless, following 1.9% growth in 2016, it does reflect an easing in UK growth performance with last year the slowest year for growth since 2012. Weaker growth in consumer spending has been an important contributor to this pattern, with consumption growth slipping to about 1.4% in the second half of last year, from over 3% a year earlier. More encouragingly, net trade made a rare positive contribution to growth last year, with the UK benefiting from the helpful combination of a weaker currency and buoyant international demand. This week's jobs market news was a mixed bag, with employment and unemployment slightly weaker than expected (the jobless rate ticked up to 4.4% from 4.3), though UK consumers will welcome signs of a gradual pickup in earnings – a development that won't go unnoticed at the BoE.

Meanwhile, clarity on the way forward in the Brexit negotiations remains elusive, with the EU Commission rejecting the UK's so-called 'three basket' approach (which the EU views as cherry picking) as incompatible with EU negotiating principles.

# US: Fed minutes confirm upgraded economic assessment; we continue to expect a further tilt in a hawkish direction over the period ahead

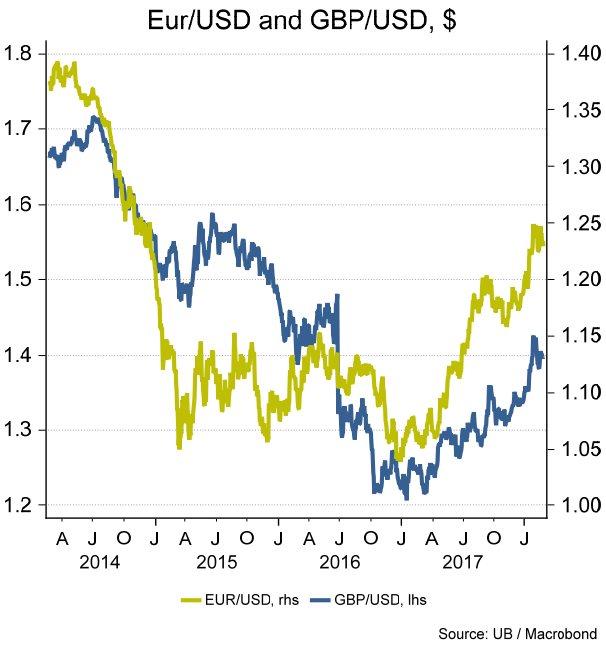



This week's minutes of the January FOMC policy meeting confirmed the Fed's upgraded characterization of both growth performance and the inflation outlook, as had been signalled in the post-meeting statement. Confidence in the economy was clear, with most members expecting a stronger near-term outlook than they had anticipated at the December Fed meeting, while several saw increased upside risks to the near-term outlook. Regarding inflation, most members expect inflation to move up in 2018 and stabilize around the committee's 2% objective – a change from December where the emphasis was on the continuation of sub-target readings in the near term. Grounded in these developments, members agreed that this increased the likelihood of staying on the gradual normalisation path, though there was no mention of the Fed perhaps needing to move faster than what has been signalled previously. It is important however to recall that the surprisingly strong wage and inflation readings for January were not reported until after the FOMC meeting, so the changes made to the economic and inflation outlook at the January meeting are perhaps better seen as laying the groundwork for a further tilt in a hawkish direction. We continue to expect another rate hike in March, while we also think that forward guidance is at some point likely to evolve to 4, rather than 3, hikes this year. Meanwhile, incoming economic news provided positive indications with initial jobless claims continuing to flirt with multi-decade lows while the Markit Composite PMI picked up in February to levels above those seen in Q4.





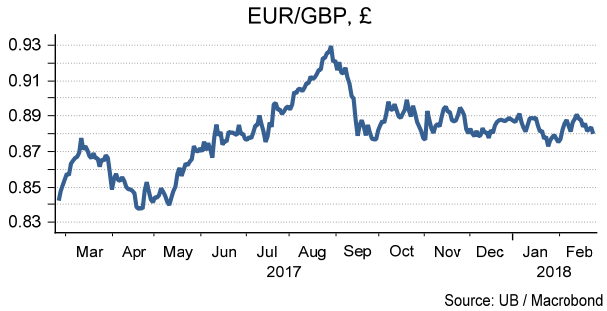
# Financial Markets: USD trading reasonably well against the majors; Eur/GBP remains range-bound



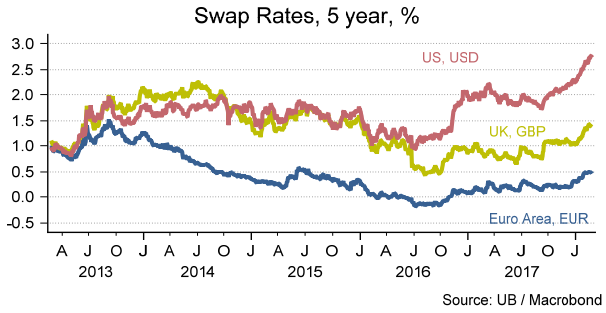

In a week without much market drama, equities generally traded slightly on the back foot, while US bond yields were little changed on the week, even if the intra-week price action was lively. Indeed, early-week upward pressure on US rates took the 10-year bond yield to a fresh new, albeit short-lived, high above 2.95% during the week. Treasuries were however able to recover following the FOMC minutes, consistent with a somewhat dovish interpretation of the meeting, with market participants perhaps slightly surprised that the Fed didn't mention the possibility of additional rate hikes.

In FX, the greenback is trading reasonably well against the majors, with the dollar, at around $1.23 vs. euro and ca. $1.40 vs. GBP, reversing some of last week's losses. Negative data surprises in the UK and in the Eurozone may have added to these dollar gains. Indeed, this is a theme we will be keeping a close eye on in the period ahead as, based on the indications from the February data we noted above, we may now be past the point of 'peak positive surprise' in the current Eurozone data cycle. Relative to the past few quarters, this may translate into less support from incoming economic newsflow for the single currency on the exchanges, especially vs. the dollar where the news has been looking more positive. Eur/GBP is trading 0.5% lower on the week at ca. 88p, but the pair remains largely range-bound with the current level broadly in line with its average over the past 5 months in which has generally traded in an 87-90p range.

# Currency and interest rate market trends










# Market Monitor

## Foreign Exchange Markets

| | Latest | weekly Δ, % |
|---|---|---|
| EUR/GBP, £ | 0.880 | -0.5 |
| GBP/EUR, € | 1.137 | 0.5 |
| EUR/USD, $ | 1.229 | -1.0 |
| GBP/USD, $ | 1.397 | -0.4 |
| EUR/JPY, JP¥ | 131.1 | -0.6 |
| GBP/JPY, JP¥ | 149.0 | 0.1 |
| USD/JPY, JP¥ | 106.7 | 0.5 |
| EUR/CHF, CHF | 1.151 | 0.0 |

## Stocks & Commodities

| | Latest | weekly Δ, % |
|---|---|---|
| ISEQ | 6,721 | -1.6 |
| STOXX Europe 600 | 381 | 0.0 |
| FTSE 100 | 7,233 | -0.8 |
| S&P 500 | 2,720 | -0.4 |
| Dow Jones | 25,119 | -0.4 |
| Nasdaq | 7,260 | 0.3 |
| NIKKEI | 21,893 | 0.8 |
| OIL (London Brent) | 67.0 | 3.3 |
| Gold | 1,328 | -1.9 |

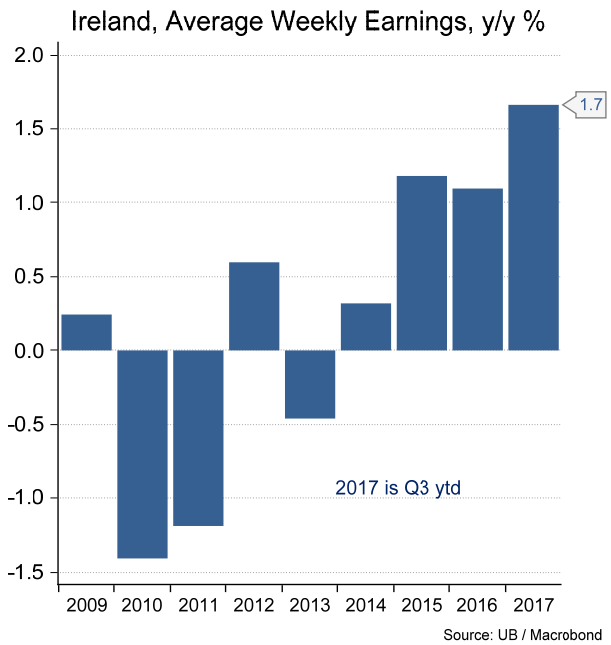
## Interest Rate Markets

| | | Latest (%) | weekly Δ, bps |
|---|---|---|---|
| EUR | 3 Month Euribor | -0.328 | 0.0 |
| | 2 Year Swaps | -0.12 | 1 |
| | 5 Year Swaps | 0.47 | -2 |
| | 10 Year Swaps | 1.09 | -3 |
| GBP | 3 Month Libor | 0.573 | 2.8 |
| | 2 Year Swaps | 1.05 | 6 |
| | 5 Year Swaps | 1.38 | 0 |
| | 10 Year Swaps | 1.61 | -4 |
| USD | 3 Month Libor | 1.956 | 7.1 |
| | 2 Year Swaps | 2.49 | 3 |
| | 5 Year Swaps | 2.74 | 2 |
| | 10 Year Swaps | 2.89 | 1 |

Note: the data in the tables are indicative only and are sourced from Bloomberg. Latest data are updated as at the time of publication. "weekly Δ" refers to the change from the previous week's closing levels.

Ulster Bank Cost of Funds Rate (365 day count) = 0.49%
Euro rates are quoted in 360-day convention.
To convert to 365 day count, divide by 360, & multiply by 365

# Highlights for the week ahead: Fed Chair Powell goes to Congress




In a busy week in the Irish economic calendar, we will pay close attention to the Q4 EHECS data (on Monday) to gauge the latest trends in labour costs. Meanwhile, the Feb. monthly (unofficial) unemployment rate (on Tuesday) and the Manufacturing PMI (on Thursday) are expected to point to positive momentum being maintained following an encouraging start to the year.

In the US, the eagerly-awaited Congressional testimony from new Fed Chair Jerome Powell (on Wednesday) will provide a timely update on the Committee's view of current economic conditions in the US, with Powell expected to convey that inflation is moving in the right direction following recent evidence of a gradual firming in measures of prices and costs. On that front, Thursday's core PCE deflator for January (the Fed's preferred inflation gauge) is expected to contain further upside news on inflation, while the ISM factory index is expected to have remained elevated in February following a positive start to '18.

In the Eurozone, headline HICP inflation (on Wed.) is expected to ease to 1.2% in Feb. from 1.3% in Jan, while core inflation is seen unchanged at 1%. Meanwhile, the unemployment rate is expected to have edged lower to 8.6% in Jan. (on Thursday).

In the UK, the Feb. Manuf. PMI is expected to remain at levels consistent with healthy growth in the sector, while the market awaits further updates from the UK Govt. on its Brexit position.





# Economic calendar for the week commencing February 26th

| Ireland / Eurozone | UK | US |
|---|---|---|
| **Monday** | | |
| 11.00 – Earnings and Labour Costs (Q4) | 18.00 – BoE's Cunliffe speaks | 13.30 – Chicago Fed Nat Activity (Jan) |
| 13.00 – ECB's Coeure speaks | | 15.00 – New Home Sales (Jan) |
| 14.00 – ECB's Draghi speaks | | 20.15 – Fed's Quarles speaks |
| **Tuesday** | | |
| 09.00 – EZ M3 Money Supply (Feb) | | 13.30 – Wholesale Inventories (Jan) |
| 10.00 – EZ Economic Sentiment Indicator (Feb) | | 13.30 – Capital / Durables goods orders (Jan) |
| 11.00 – Monthly Unemployment Rate (Feb) | | 15.00 – Conf. Board Consumer Confidence (Feb) |
| 13.00 – GE CPI (Feb) | | |
| **Wednesday** | | |
| 10.00 – EZ CPI (Feb) | 00.01 – GfK Consumer Confidence (Feb) | 13.30 – GDP 2nd estimate (Q4) |
| | | 15.00 – Chicago PMI (Feb) |
| | | 15.00 – Fed's Powell Testimony to the House |
| **Thursday** | | |
| 06.00 – Investec Manufacturing PMI (Feb) | 09.30 – Manufacturing PMI (Feb) | 13.30 – Initial Jobless Claims (Feb 24) |
| 10.00 – EZ Unemployment Rate (Jan) | 09.30 – Mortgage Approvals (Jan) | 13.30 – Personal Income / Spending (Jan) |
| 11.00 – Live Register (Jan) | 09.30 – M4 Money Supply (Jan) | 13.30 – Core PCE deflator (Jan) |
| 11.00 – Overseas Travel (Jan) | | 13.30 – ISM Manufacturing (Feb) |
| **Friday** | | |
| | 09.30 – Construction PMI (Feb) | 15.00 – U of Michigan – Final (Feb) |

The Calendar uses Irish local time

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