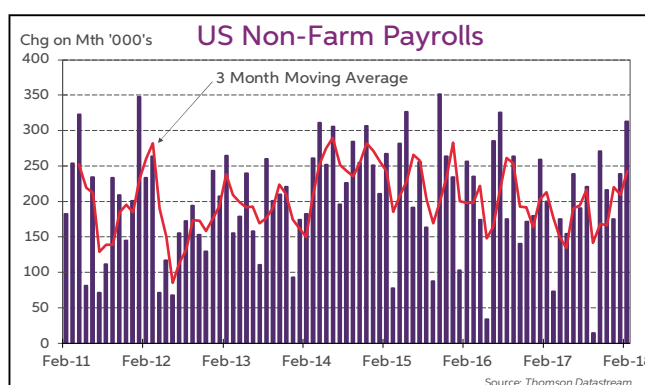


No spring step in currency markets

- **The recent weakness in equities is clearly impacting bonds, but its effect on currency markets is much less discernable.** The euro has been quite range bound against the dollar, yen and sterling during March. Currency markets are struggling for direction at present, with the dollar in particular stabilising since mid-February after falling by almost 7% in trade-weighted terms over the winter months. There have been plenty of events for currency markets to absorb recently, between the growing risk of a trade war, developments in relation to Brexit, more hawkish central banks and volatile financial markets, but they have remained largely unresponsive.
- **We would expect, though, that the trends which we have seen in currency markets over the last six to twelve months will reassert themselves again as the year progresses.** Our view remains that the dollar is in long-term decline. We expect the currency's rally over the period from mid-2014 to end 2016 will continue to unwind as other central banks join the Fed in tightening policy on improving global growth. Specifically, **the euro is still at a low level against the dollar at around \$1.23, given it largely traded in a \$1.20-1.50 range from 2003 to 2015. This suggests that the EUR/USD rate has considerable further upside potential.** We expect it to test \$1.30 before the year is out.
- **Sterling also has upside potential if progress continues to be made in the Brexit negotiations and a withdrawal agreement is concluded later this year that includes the recently agreed transition period.** This would pave the way for a smooth Brexit, which should see the euro fall back to 85p or below and cable rising above \$1.50. The main downside risk remains UK politics as it could be difficult to get a withdrawal agreement through Parliament.

- **Turning to the week ahead, most of the main data releases come from the US. This includes the March employment report.** The key non-farm payrolls have been very strong in recent months, rising by 313k in February after 240k in January. Another strong 200k+ rise is anticipated in March. At the same time, the unemployment rate looks set to have fallen to an over 17-year low of 4%. The tighter labour market has so far had only a limited impact on wages, with the rate of year-on-year growth in hourly earnings stuck in a 2.3-2.8% range since the middle of 2015. It is expected to have held in this range in March.



- **In terms of other US data due out in the coming days, the ISM indices for March will garner some attention.** While both the manufacturing and non-manufacturing indices are forecast to edge lower in the month, they should still point to continuing solid growth in Q1.
- **Flash HICP inflation for March is the main release in the Eurozone. Headline inflation is forecast to pick up from 1.1% to 1.4%, reflecting earlier national data.** This would be in line with the ECB view that inflation will “hover around 1.5%” this year, below its target of close to, but below, 2%. Eurozone retail sales and unemployment for February are also set to feature along with German industrial output in the coming days. In terms of monetary policy, the ‘account’ of the March ECB meeting will warrant analysis. Markets will be looking for further guidance on the timeframe for the phasing out of net asset purchases and subsequent moves to increase rates from their current very low levels.
- **In the UK, the PMIs for March are the main feature of a light calendar.** Both the manufacturing and services indices have pointed to a slightly slower pace of growth in January/February compared to Q4 2017. This trend is forecast to have continued in March.

	Interest Rate Forecasts			
	Current	End Q2 2018	End Q3 2018	End Q4 2018
Fed Funds	1.625	1.875	2.125	2.125
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	0.75	0.75	1.00
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 Q2 2018	End Q3 2018	End Q4 2018
EUR/USD	1.2325	1.25	1.26	1.28
EUR/GBP	0.8762	0.88	0.87	0.86
EUR/JPY	131.10	133	132	132
GBP/USD	1.4063	1.42	1.45	1.49
USD/JPY	106.36	106	105	103

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Coeuré (Friday)		
	Fed Speakers:	Kashkari (Monday); Kashkari (Tuesday); Mester (Wednesday)		
Mon 2nd	IRL/UK/Some-EU 19: Easter Monday (Market Holiday)			
	JPN: 00.50	Tankan Big Manufacturing Index (Q1)	25	25
		- Non-Manufacturing	23	24
	CHINA: 02.45	Caixin Manufacturing PMI (March)	51.6	51.7
	US: 14.45	Final Markit Manufacturing PMI (March)	55.3 / 55.7 (p)	55.7
	US: 15.00	Construction Spending (February)	0.0%	+0.3%
	US: 15.00	Manufacturing ISM (March)	60.8	60.0
Tue 3rd	AUS: 05.30	RBA Interest Rate Announcement	1.50%	1.50%
	GER: 07.00	Retail Sales (February)	-0.7% (+2.3%)	+0.8% (+2.2%)
	UK: 09.30	CIPS/Markit Manufacturing PMI (March)	55.2	54.5
	EU-19: 10.00	Final Markit Manufacturing PMI (March)	58.6 / 56.6 (p)	56.6
	US: 20.30	Total Vehicle Sales (March)	17.08m s.a.a.r.	16.95m
Wed 4th	CHINA: 02.45	Caixin Services PMI (March)	54.2	
	ITA: 09.00	Unemployment Rate (February)	11.1%	11.0%
	UK: 09.30	CIPS/Markit Construction PMI (March)	51.4	50.7
	EU-19: 10.00	Flash HICP (March)	(+1.1%)	(+1.4%)
		- Ex-Food & Energy	(+1.1%)	(+1.1%)
	EU-19: 10.00	Unemployment (February)	8.6%	8.5%
	IRL: 11.00	Unemployment (March)	6.1%	6.0%
	US: 13.15	ADP Employment (March)	235,000	205,000
	US: 15.00	Factory Orders (February)	-1.4%	+1.8%
	US: 15.00	Non-Manufacturing ISM (March)	59.5	59.0
		- Business Activity	62.8	
	US: 15.45	Final Markit Services PMI (March)	55.9 / 54.1 (p)	54.1
	IRL: 16.30	Exchequer Balance (March)	-€0.9bn	-€1.0bn
Thurs 5th	GER: 07.00	Industrial Orders (February)	-3.9%	+1.2%
	FRA: 08.50	Final Markit Composite PMI (March)	57.3 / 56.2 (p)	56.2
	GER: 08.55	Final Markit Composite PMI (March)	57.6 / 55.4 (p)	55.4
	EU-19: 09.00	Final Markit Composite PMI (March)	57.1 / 55.3 (p)	55.3
		- Services	56.2 / 55.0 (p)	55.0
	EU-19: 10.00	PPI (February)	+0.4% (+1.5%)	+0.2% (+1.5%)
	EU-19: 10.00	Retail Sales (February)	-0.1% (+2.3%)	+0.6% (+2.2%)
	UK: 10.30	CIPS/Markit Services PMI (March)	54.5	54.0
	EU-19: 12.30	ECB Account from 7th-8th March Meeting Published		
	US: 13.30	International Trade Balance (February)	-\$56.6bn	-\$56.8bn
	US: 13.30	Initial Jobless Claims (w/e 31st March)	215,000	225,000
Fri 6th	JPN: 06.00	Leading Indicators Index (February)	-1.8% / 105.6	
	GER: 07.00	Industrial Output (February)	-0.1%	+0.3%
	FRA: 07.45	Trade Balance (February)	-€5.56bn	
		- Exports	-3.2%	
	IRL: 11.00	Live Register (March)	-3,400 / 234,900	-2,900 / 232,000
	US: 13.30	Non-Farm Payrolls (March)	313,000	201,000
		- Unemployment	4.1%	4.0%
		- Average Earnings	+0.1% (+2.6%)	+0.2% (+2.7%)

◆ 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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