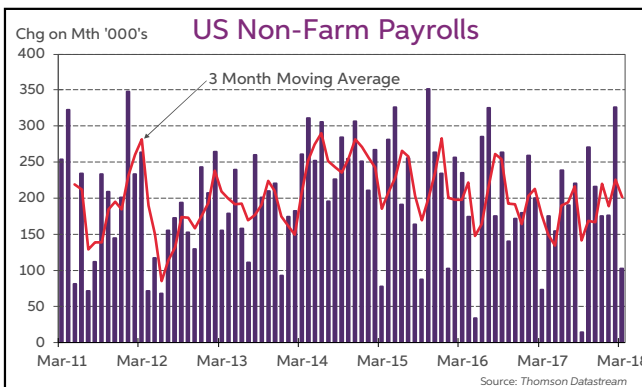


Dollar bears mauled

- The market has been very short the dollar in recent months, with traders anticipating that the currency's decline in 2017 and early 2018 would be sustained throughout this year. Reuters report that traders net dollar short positions had hit six year highs. However, the dollar turned very stable over the spring. More recently, **rising US yields have unnerved dollar bears, who have started to unwind some of their short positions.** This has seen the dollar spike higher, rising by between 2.5% and 4% against a broad range of currencies in the past ten days.
- **The extreme positioning suggests there is a further unwinding of dollar shorts to come, especially in the context of ten year US Treasury yields rising to 3%, a firming of market expectation on Fed rate hikes and signs of a loss of momentum in economies outside of the US,** which will delay monetary tightening by their central banks. The EUR/USD rate had been confined to a narrow \$1.22 to \$1.25 range over the past three months. The euro, though, has fallen back to under \$1.21 in the past couple of days, opening up a move down to the \$1.18-1.19 level.
- **Recent moves, though, are unlikely to be a signal that last year's dollar decline is over.** Rising twin US deficits are a long-term negative for the currency, while US growth will eventually slow on monetary tightening and as the fiscal stimulus fades. For now, though, with growth elsewhere underwhelming of late, the dollar has regained the upper hand, especially with more stale bears likely to be squeezed out of their short positions.
- **After last week's ECB meeting, the focus this week moves to the US Fed.** The Central Bank is not expected to make any changes to policy, having only increased rates by 25bps to 1.625% at its last meeting in March. Since then, US economic data have generally surprised to the upside, while there have been positive headlines in relation to geopolitical risks such as US/China trade relations. There was some disappointment in March that the Fed did not move to project a total of four rate hikes this year, though it came very close. Thus, **the meeting statement will be looked to for any signs that recent developments have seen the Committee adopt a more upbeat outlook.** Futures contracts show markets expect the next US rate hike in June.

■ **Data-wise, US non-farm payrolls for April are the key release of the week.** Payrolls performed strongly in Q1, averaging monthly growth of 202k, though the March figure was low at 103k. A 198k increase is forecast for April. At the same time, the unemployment rate is anticipated to fall to just 4%. This would represent its lowest rate since December 2000, suggesting a very tight labour market.



- This is corroborated by indicators such as the NFIB's 'jobs hard to fill' index and falls in jobless claims. All of this would suggest that US wage inflation should pick up. Although, there has been limited evidence of this so far and **year-on-year growth in average hourly earnings looks set to have remained at 2.7% in April.** However, core-PCE inflation (Fed's preferred measure) is expected to have risen from 1.6% to 1.8% in March.
- **In the Eurozone, we get the first reading of Q1 GDP.** Data in the quarter were mixed, with hard data pointing to a slower pace of growth. Indeed, **the market consensus is for quarterly growth of 0.4%, after three consecutive quarters of 0.7% increases.** Meantime, flash Eurozone HICP inflation for April is due. Inflation has remained subdued recently, holding in a 1.2-1.5% range since mid-2017. A 1.4% result is forecast, up slightly from 1.3% in March. Eurozone unemployment for March also features. The unemployment rate is expected to have remained at a 9½-year low of 8.5%.
- **The April PMIs are the main UK release.** The key services PMI, which fell back in March, is forecast to improve, while still pointing to only modest growth, while the manufacturing index looks set to remain more upbeat.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2018	2018	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	0.50	0.75	0.75
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	End Q3	End Q4
		2018	2018	2018
EUR/USD	1.2080	1.22	1.24	1.26
EUR/GBP	0.8768	0.87	0.86	0.85
EUR/JPY	131.94	132	131	131
GBP/USD	1.3773	1.40	1.44	1.48
USD/JPY	109.19	108	106	104

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Villeroi de Galhau, Constâncio, Cœuré (Thursday)		
	Fed Speakers:	Bostic, George, Kaplan, Williams (Friday)		
Mon 30th	JPN:	Showa Day (Market Holiday)		
	CHINA: 02.00	NBS Manufacturing PMI (April) - Non-Manufacturing	51.5 54.6	
	GER: 07.00	Retail Sales (March)	-0.7% (+1.3%)	+0.8 (+1.4%)
	EU-19: 09.00	M3 Money Supply (March)	(+4.2%)	(+4.1%)
	ITA: 11.00	Preliminary HICP (April)	(+0.9%)	(+0.7%)
	GER: 13.00	Preliminary HICP (April)	(+1.5%)	(+1.5%)
	US: 13.30	Personal Income / Consumption (March) - Core PCE Prices	+0.4% / +0.2% (+1.6%)	+0.4% / +0.4% (+1.8%)
Tue 1st	Most EU-19:	Labour Day (Market Holiday)		
	AUS: 05.30	RBA Interest Rate Announcement	1.50%	1.50%
	UK: 09.30	BoE Mortgage Approvals (March)	63,910	63,000
	UK: 09.30	CIPS/Markit Manufacturing PMI (April)	55.1	55.0
	IRL: 11.00	Unemployment (April)	6.1%	6.0%
	US: 15.00	Manufacturing ISM (April)	59.3	58.6
	US: 20.30	Total Vehicle Sales (April)	17.48m s.a.a.r.	17.30m
Wed 2nd	CHINA: 02.45	Caixin Manufacturing PMI (April)	51.0	50.8
	ITA: 09.00	Unemployment (March)	10.9%	10.9%
	EU-19: 09.00	Final Markit Manufacturing PMI (April)	56.6 / 56.0 (p)	56.0
	UK: 09.30	CIPS/Markit Construction PMI (April)	47.0	50.5
	ITA: 10.00	GDP (Q1: First Reading)	+0.3%	+0.3%
	EU-19: 10.00	GDP (Q1: First Reading)	+0.7%	+0.4%
	EU-19: 10.00	Unemployment (March)	8.5%	8.5%
	IRL: 16.30	Exchequer Balance (April)	April'17: -€2.5bn	-€2.6bn
	US: 19.00	FOMC Interest Rate Announcement	1.50-1.75%	1.50-1.75%
Thurs 3rd	JPN:	Constitution Day (Market Holiday)		
	UK: 09.30	CIPS/Markit Services PMI (April)	51.7	52.9
	EU-19: 10.00	Flash HICP (April) - Ex-Food & Energy	(+1.3%) (+1.3%)	(+1.4%) (+1.1%)
	IRL: 11.00	Live Register (April)	-2,200 / 233,100	3,100 / 230,000
	US: 13.30	International Trade (March)	-\$57.6bn	-\$53.5bn
	US: 13.30	Initial Jobless Claims (w/e 28th April)	209,000	225,000
	US: 15.00	Factory Orders (March)	+1.2%	+0.9%
	US: 15.00	Non-Manufacturing ISM (April) - Business Activity	58.8 60.6	58.4 60.0
Fri 4th	JPN:	Greenery Day (Market Holiday)		
	CHINA: 02.45	Caixin Services PMI (April)	52.3	
	FRA: 07.45	Trade Balance (March) - Exports	-€5.2bn -0.9%	-€4.8bn
	FRA: 08.50	Final Markit Composite PMI (April)	56.3 / 56.9 (p)	56.9
	GER: 08.55	Final Markit Composite PMI (April)	55.1 / 55.3 (p)	55.3
	EU-19: 09.00	Final Markit Composite PMI (April) - Services	55.2 / 55.2 (p) 54.9 / 55.0 (p)	55.2 55.0
	EU-19: 10.00	Retail Sales (March)	+0.1%	+0.6%
	US: 13.30	Non-Farm Payrolls (April) - Unemployment - Average Earnings	103,000 4.1% +0.3% (+2.7%)	198,000 4.0% +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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