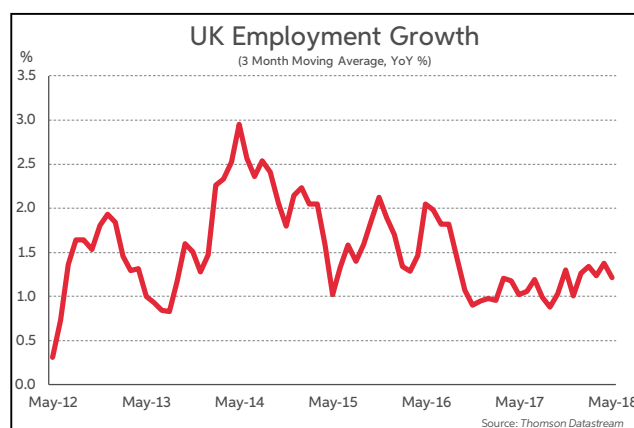


Euro's goose cooked over Turkey

- **The three main safe-haven currencies—the US dollar, yen and Swiss Franc—made significant gains over the past week as investor risk appetite dissipated** amidst escalating geopolitical tensions, encompassing diplomatic spats, sanctions and trade rows, with the US administration very much front and centre in all the wrangling. Bond markets also benefitted in the flight-to-quality out of riskier assets, with emerging markets the main casualty.
- **Of most significance, though, may be the crumbling of the strong support for EUR/USD at around the \$1.1550 level, which had held over the summer months.** Media reports that the ECB is becoming concerned about the impact of the turmoil in Turkish markets and plunging lira on European banks which have exposures to the country proving to be the straw that broke this key support level. The EUR/USD rate has fallen close to \$1.14. **The breach of the \$1.1550 support level opens up a move down to \$1.12-1.13**, the next major support for the currency pair. We think the market may be reluctant to take the pair much lower than this.
- **Sterling was also under pressure again this week, with the major support level of 90p versus the euro being strongly tested.** Traders reported a lot of hedging by companies, fearful of a 'no-deal' hard Brexit that would trigger further sharp falls in the UK currency. A very challenging task lies ahead for the UK Government in terms of trying to agree and ratify the EU Withdrawal Agreement that would pave the way for a soft Brexit next March. Sterling is likely to remain weak over the autumn amidst all the uncertainty over Brexit.

■ In terms of the week ahead, **after a quiet few days on the data front, there is a busier schedule of releases to look forward to. This includes a raft of important UK labour market updates for Q2.** Employment is forecast to have increased by 105k in the quarter. This is about half of Q1's 197k increase. Although, the unemployment rate is still predicted to have held at 4.2%, its lowest level since 1975.

■ The BoE stated recently that "very limited" slack remains in the jobs market, though wage growth "remains subdued". **Average weekly earnings are expected to have grown by 2.5% year-on-year in Q2, slightly below Q1's 2.6% rate.** CPI inflation averaged 2.4% in Q2 and it looks set to have edged up to 2.5% in July, showing that real wage growth in the UK remains negligible. Despite this, UK retail sales jumped by 2.1% in Q2, their strongest quarter since 2004. Although, this largely reflected a number of temporary factors. Sales are anticipated to have been broadly flat in July.



- **In the US, July retail sales are the main release. A modest increase expected.** The Michigan measure of US consumer sentiment is forecast to have remained strong in August. On the output side of the economy, industrial production is anticipated to have risen in July, after recording a solid 1.5% increase in the second quarter. The NY and Philly Fed indices for August will provide a more up-to-date look at the sector. The busy US schedule also features some housing market updates, including starts (July) and NAHB sentiment (August).
- **In the Eurozone, we get a first look at German GDP data for Q2. Quarterly growth of 0.4% is expected,** versus 0.3% in Q2. Updated Eurozone Q2 GDP figures are not anticipated to show any revisions from the initial estimate of a quarterly rise of 0.3%. The German ZEW sentiment survey for August will also feature.

	Interest Rate Forecasts			
	Current	End Q3 2018	End Q4 2018	End Q1 2019
Fed Funds	1.875	2.125	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	0.75	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 Q3 2018	End Q4 2018	End Q1 2019
EUR/USD	1.1427	1.13	1.15	1.18
EUR/GBP	0.8965	0.90	0.88	0.87
EUR/JPY	126.58	125	125	126
GBP/USD	1.2743	1.26	1.31	1.36
USD/JPY	110.76	111	109	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:				
Mon 13th	ITA:	09.00 Final HICP (July)	(+1.9%) (p)	(+1.9%)
Tue 14th	CHINA:	03.00 Industrial Output (July)	(+6.0%)	(+6.3%)
	FRA:	06.30 ILO Unemployment (Q2)	9.2%	9.2%
	GER:	07.00 GDP (Q2: First Reading)	+0.3%	+0.4%
	GER:	07.00 Final HICP (July)	(+2.1%) (p)	(+2.1%)
	FRA:	07.45 Final HICP (July)	(+2.6%) (p)	(+2.6%)
	UK:	09.30 Employment (3 Months to June)	137,000	105,000
		- ILO Unemployment	4.2%	4.2%
	UK:	09.30 Average Weekly Earnings (3 Months to June)	(+2.5%)	(+2.5%)
		- Ex-Bonus	(+2.7%)	(+2.7%)
	GER:	10.00 ZEW Economic Sentiment (August)	-24.7	-20.0
	EU-19:	10.00 GDP (Q2: Second Reading)	+0.3% (+2.1%) (p)	+0.3% (+2.1%)
	EU-19:	10.00 Industrial Output (June)	+1.3% (+2.4%)	-0.4% (+2.7%)
	US:	11.00 NFIB Business Optimism (July)	107.2	
	IRL:	11.00 Residential Property Prices (June)	+0.6% (+12.4%)	+1.0% (+11.9%)
	IRL:	11.00 Goods Trade Balance (June)	€5.2bn	€4.5bn
	US:	13.30 Import / Export Prices (July)	-0.4% / +0.3%	+0.1% / +0.2%
Wed 15th	Most EU-19:	Assumption Feast (Market Holiday)		
	UK:	09.30 CPI (July)	(+2.4%)	(+2.5%)
		- Ex-Food & Energy	(+1.9%)	(+1.9%)
	UK:	09.30 PPI Output (July)	(+3.1%)	(+3.0%)
		- Input	(+10.2%)	(+10.4%)
	US:	13.30 NY Fed/Empire State Index (August)	22.6	22.0
	US:	13.30 Retail Sales (July)	+0.5%	+0.1%
		- Ex-Autos	+0.4%	+0.3%
		- Ex-Gas, Autos & Building Materials	0.0%	+0.4%
	US:	14.15 Industrial Production (July)	+0.6%	+0.3%
		- Capacity Utilisation	78.0%	78.2%
	US:	15.00 NAHB Homebuilders Sentiment (August)	68	67
Thurs 16th	JPN:	00.50 Trade Balance (July)	¥721.4bn	-¥50.0bn
		- Exports	(+6.7%)	(+6.3%)
	UK:	09.30 Retail Sales (July)	-0.5% (+2.9%)	+0.2% (+3.0%)
	US:	13.30 Housing Starts (July)	-12.3% / 1.173m s.a.a.r.	+7.4% / 1.260m
		- Building Permits	-0.7% / 1.292m s.a.a.r.	+1.1% / 1.306m
	US:	13.30 Initial Jobless Claims (w/e 11th August)	213,000	216,000
	US:	13.30 Philly Fed Index (August)	25.7	22.0
Fri 17th	EU-19:	09.00 Current Account (June)	€22.4bn	
	EU-19:	10.00 Final HICP (July)	(+2.1%) (p)	(+2.1%)
		- Ex-Food & Energy	(+1.3%) (p)	(+1.3%)
	US:	15.00 Prelim' Michigan Consumer Sentiment (August)	97.9	97.9

◆ 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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