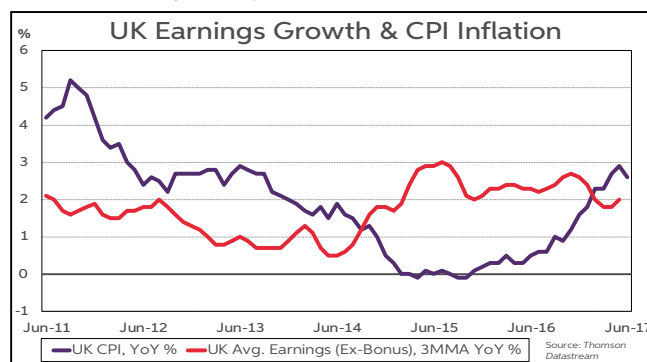


Under fire

- **Rising geopolitical tensions over North Korea have seen profit taking in recent days in stocks**, credit and risk-driven currency trades, such as leveraged bets against the Swiss franc and yen. There has also been a move into safe-haven government bonds, which has put renewed downward pressure on yields. The market moves, though, have been modest enough, and while volatility has picked up, it remains at low levels. Ample liquidity and low interest rates continue to provide considerable support for markets.
- **The heightened geopolitical tensions have given some further support to the dollar**, after better than expected US labour market data and renewed talk of a cut in US corporate taxes helped stem the slide of the currency. The dollar declined by 5% on a trade-weighted basis between late June and the start of August. **Dollar gains have been modest, though, as investors believe that subdued inflation means only limited further rate tightening is in store in the US**, despite Fed projections to the contrary.
- **With little prospect also of a near-term fiscal stimulus from the Trump administration, it would seem the best the dollar can hope for in the short-term is a period of range trading following its 10% slide year-to-date.** All is not lost for the dollar, though. We still expect the White House to try and deliver some form of fiscal stimulus ahead of next year's Congressional elections, while the Fed could yet surprise markets with the extent of its policy tightening in 2018/19.

- **Following last week's uninspiring calendar, there is more for markets to look forward to in the coming days. This includes a raft of UK labour market figures for Q2.** Employment is forecast to have risen by a modest 85k in the second quarter, a slowdown compared to Q1's 121k increase. At the same time, the unemployment rate is anticipated to have edged down in Q2 from 4.6% to 4.5%. While unemployment is very low, wage growth has remained weak, perhaps reflecting uncertainty and higher costs faced by UK employers since the Brexit vote. **Year-on-year growth in weekly earnings is forecast to have remained subdued in Q2 at 1.7%, or 2% when bonuses are excluded.**



- **The weak UK wage growth is of particular concern given the recent rise in the CPI index.** While inflation slowed slightly to 2.6% in June, base effects from 2016 mean that it looks set to pick back up to 2.7% in July, maintaining the squeeze on household incomes. Although, UK retail sales are predicted to have recorded another modest increase in July.
- **There is also a busy schedule in the US, which includes July retail sales.** Nominal sales tended to disappoint in Q2, including a surprise decline in June. However, a 0.3% rebound is anticipated in July. The timelier Michigan measure of consumer sentiment is predicted to remain at a strong level in August. **On the output side of the economy, industrial production is expected to have registered another increase in July**, following on from Q2's solid 1.2% rise. In terms of monetary policy, markets will be dissecting the minutes of the Fed's July meeting, as they look for further details on balance sheet 'normalisation' and the likely pace of future rate hikes.
- **In Japan, good GDP figures for Q2 are expected (+0.6% quarter-on-quarter).** Finally, **Q2 GDP is also back on the agenda in the Eurozone this week.** Further encouraging growth is forecast in Germany (+0.7%) and Italy (+0.4%), while no change to the original estimate of the Eurozone aggregate figure (+0.6%) is expected. Eurozone industrial production for June also features this week. Meanwhile, the ECB meeting 'account' for July will be looked to for greater insights into the discussion on the Central Bank's easing bias after it disappointed some market participants by retaining its commitment to increase/extend QE if required. They will also be looking for insights into the review of monetary policy that President Draghi said would happen in the autumn.

| | Interest Rate Forecasts | | | |
|-------------|-------------------------|--------|--------|--------|
| | Current | End Q3 | End Q4 | End Q1 |
| | | 2017 | 2017 | 2018 |
| Fed Funds | 1.125 | 1.125 | 1.375 | 1.625 |
| 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 | 1.1799 | 1.18 | 1.16 | 1.14 |
| EUR/GBP | 0.9098 | 0.91 | 0.89 | 0.87 |
| EUR/JPY | 128.84 | 131 | 131 | 131 |
| GBP/USD | 1.2967 | 1.30 | 1.30 | 1.31 |
| USD/JPY | 109.19 | 111 | 113 | 115 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT+1) | Release | Previous | Forecast |
|-------------------|-------------------------|--|-------------------------|----------------|
| This Week: | Fed Speakers: | Kaplan, Kashkari (Thursday); Kaplan (Friday) | | |
| Mon 14th | JPN: 00.50 | GDP (Q2: First Reading) | +0.3% / +1.0% s.a.a.r. | +0.6% / +2.5% |
| | CHINA: 03.00 | Industrial Output (July) | (+7.6%) | (+7.2%) |
| | EU-19: 10.00 | Industrial Production (June) | +1.3% (+4.0%) | -0.4% (+2.9%) |
| Tue 15th | Most EU-19: | Assumption Day (Market Holiday) | | |
| | GER: 07.00 | GDP (Q2: First Reading) | +0.6% (+1.7%) | +0.7% (+1.9%) |
| | UK: 09.30 | CPI (July) | 0.0% (+2.6%) | 0.0% (+2.7%) |
| | | - Ex-Food & Energy | 0.0% (+2.4%) | 0.0% (+2.5%) |
| | UK: 09.30 | PPI Output Prices (July) | 0.0% (+3.3%) | 0.0% (+3.1%) |
| | | - Input | -0.4% (+9.9%) | +0.5% (+7.0%) |
| | IRL: 11.00 | Goods Trade Balance (June) | €4.3bn | €4.4bn |
| | US: 13.30 | NY Fed/Empire State Index (August) | 9.8 | 10.0 |
| | US: 13.30 | Import / Export Prices (July) | -0.2% / -0.2% | +0.1% / +0.2% |
| | US: 13.30 | Retail Sales (July) | -0.2% | +0.3% |
| | | - Ex-Autos | -0.2% | +0.3% |
| | | - Ex-Gas, Autos & Building Materials | -0.1% | +0.4% |
| | US: 15.00 | Business Inventories (June) | +0.3% | +0.4% |
| | US: 15.00 | NAHB Homebuilders' Sentiment (August) | 64 | 65 |
| Wed 16th | ITA: 09.00 | GDP (Q2: First Reading) | +0.4% (+1.2%) | +0.4% (+1.5%) |
| | UK: 09.30 | Employment (Q2) | 121,000 | 85,000 |
| | | - ILO Unemployment | 4.6% | 4.5% |
| | UK: 09.30 | Average Weekly Earnings (Q2) | (+2.3%) | (+1.7%) |
| | | - Ex-Bonus | (+1.8%) | (+2.0%) |
| | EU-19: 10.00 | GDP (Q2: Second Reading) | +0.6% (+2.1%) (p) | +0.6% (+2.1%) |
| | US: 13.30 | Housing Starts (July) | +8.3% / 1.215m s.a.a.r. | +0.4% / 1.220m |
| | | - Building Permits | +9.2% / 1.275m s.a.a.r. | -2.7% / 1.246m |
| | US: 19.00 | FOMC Minutes from 25th-26th July Meeting Published | | |
| Thurs 17th | JPN: 00.50 | Trade Balance (July) | ¥439.9bn | ¥392.0bn |
| | | - Exports | (+9.7%) | (+13.6%) |
| | FRA: 06.30 | ILO Unemployment (Q2) | 9.6% | |
| | UK: 09.30 | Retail Sales (July) | +0.6% (+2.9%) | +0.2% (+1.4%) |
| | EU-19: 10.00 | Goods Trade Balance (June) | €21.4bn | |
| | EU-19: 10.00 | Final HICP (July) | (+1.3%) (p) | (+1.3%) |
| | | - Ex-Food & Energy | (+1.3%) (p) | (+1.3%) |
| | EU-19: 12.30 | ECB Account from 19th-20th July Meeting Published | | |
| | US: 13.30 | Initial Jobless Claims (w/e 12th August) | 244,000 | 241,000 |
| | US: 13.30 | Philly Fed Index (August) | 19.5 | 18.5 |
| | US: 14.15 | Industrial Output (July) | +0.4% | +0.3% |
| | | - Capacity Utilisation | 76.6% | 76.7% |
| Fri 18th | EU-19: 09.00 | Current Account (June) | €30.1bn | |
| | US: 15.00 | Prelim' Michigan Consumer Sentiment (August) | 93.4 | 94.0 |

◆ 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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.