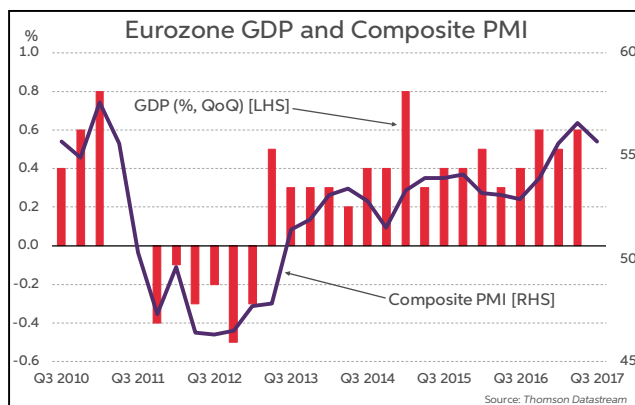


Sterling still a bit shook up

■ **Sterling remained on the defensive in recent days**, continuing a trend that set in around the beginning of the summer. The snap UK general election in early June, which saw the Conservative Party lose its parliamentary majority, brought downward pressure on the currency. On-going uncertainty over Brexit as well as reduced expectations of a near-term rate hike from the BoE have also weighed on sterling. The euro has been on a steady upward path against sterling over the last three months, climbing from 84p to 91p, last week reaching a new 10 month high. It is important that support holds around the 91-92p band for sterling, as it found support at this level last autumn when the pound fell sharply on concerns that the UK could be faced with a hard Brexit. If this level is breached, it could open up a move to 94-95p, levels that it previously reached back in 2009.

■ **The negotiations between the UK and EU on Brexit are likely to be the key factor influencing sterling in the months ahead.** There are hopes that the outcome of the talks will be a soft Brexit. Nonetheless, there is still a risk of a hard Brexit where the UK loses free access to EU markets and has to fall back on WTO rules. This would be very negative for the UK economy and see further falls in sterling. A hard Brexit could see the euro move well above the 91p level, with some commentators talking about the possibility of parity for the pair. On the other hand, a soft Brexit should see the UK currency regain much of the ground lost since June 2016, with the euro moving down towards 80p. **Therefore, markets will be keeping a very close eye on the Brexit negotiations in the months ahead to see if a deal is likely to be done.**

■ **In terms of the week ahead, data-wise, there is a busy schedule of Eurozone survey indicators for August.** The main release is the flash Eurozone PMIs. The composite index fell back in July, while remaining at a very encouraging level of 55.7. It is expected to have remained near this level in August. This suggests the currency bloc is continuing to grow at a solid pace in Q3. **The flash EC measure of Eurozone consumer sentiment is also due. It looks set to remain close to a 10-year high.** At a national level, the German Ifo will attract attention, while the French INSEE and Belgian NBB indices also feature.



■ **Flash August PMI data are one of the main release in the US as well.** Both the manufacturing and services indices rose in July, pointing to a firming in growth at the start of the third quarter. They are forecast to move higher in August, continuing to suggest a solid level of economic expansion. The US schedule also features existing home sales and durable goods orders for July.

■ **In the UK, we get the second reading of Q2 GDP.** While no revisions to the current estimate of quarterly growth are anticipated, the release does provide us with a first look at the expenditure breakdown of GDP. **Markets will be assessing this in the context of what impact, if any, last years Brexit vote is having on the economy**, with particular focus on consumer spending and business investment. Meanwhile, public finance data for July look set to continue to show that borrowing has risen this year versus 2016.

■ **In terms of monetary policy, there will be plenty of attention on the annual 'Jackson Hole' economic symposium on the theme of 'Fostering a Dynamic Global Economy'.** Both Fed Chair Yellen and ECB President Draghi are due to speak at the event. However, there are no major expectations that either will provide much in the way of substantive new information about the future path of monetary policy for their respective Central Banks. Indeed, ECB 'sources' have stated that President Draghi wants to hold off on revising the Central Bank's current stance/guidance until later in the autumn.

	Interest Rate Forecasts			
	Current	End Q3 2017	End Q4 2017	End Q1 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 2017	End Q4 2017	End Q1 2018
EUR/USD	1.1740	1.18	1.16	1.14
EUR/GBP	0.9109	0.91	0.89	0.87
EUR/JPY	127.64	131	131	131
GBP/USD	1.2889	1.30	1.30	1.31
USD/JPY	108.70	111	113	115

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	Fed Speakers:	Kaplan (Wednesday)		
	ECB Speakers:	Constâncio (Tuesday); Draghi (Wednesday); Draghi (Friday)		
Mon 21st	UK: 09.30	PSNB Ex-Interventions (July)	£6.85bn	£1.00bn
	US: 13.30	Chicago Fed National Activity Index (July)	0.13	
Tue 22nd	GER: 10.00	ZEW Economic Sentiment (August)	17.5	15.0
	UK: 11.00	CBI Industrial Orders Index (August)	10	
Wed 23rd	FRA: 08.00	Flash Markit Composite PMI (August)	55.6	55.5
	GER: 08.30	Flash Markit Composite PMI (August)	54.7	54.7
	EU-19: 09.00	Flash Markit Composite PMI (August)	55.7	55.6
		- Manufacturing / Services	56.6 / 55.4	56.3 / 55.4
	US: 14.45	Flash Markit Manufacturing PMI (August)	53.3	53.5
		- Services	54.7	54.9
	US: 15.00	New Homes Sales (July)	+0.8% / 0.610m s.a.a.r.	+0.8% / 0.613m
	EU-19: 15.00	Flash EC Consumer Confidence (August)	-1.7	-1.8
Thurs 24th	FRA: 07.45	INSEE Business Climate (August)	109	108
	UK: 09.30	GDP (Q2: Second Reading)	+0.3% (+1.7%) (p)	+0.3% (+1.7%)
	UK: 11.00	CBI Distributive Trades (August)	22	
	US: 13.30	Initial Jobless Claims (w/e 19th August)	232,000	239,000
	BEL: 14.00	NBB Leading Business Indicator (August)	-1.5	-1.6
	US: 15.00	Existing Home Sales (July)	-1.8% / 5.52m s.a.a.r.	+0.7% / 5.57m
Fri 25th	JPN: 00.30	CPI: Nationwide (July) / Tokyo (August)	(+0.4%) / (+0.1%)	
	GER: 07.00	GDP (Q2: Second Reading)	+0.6% (+2.1%) (p)	+0.6% (+2.1%)
	FRA: 07.45	Consumer Confidence (August)	104	104
	GER: 09.00	Ifo Business Climate (August)	116.0	115.6
	US: 13.30	Durable Goods Orders (July)	+6.4%	-5.5%

◆ 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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