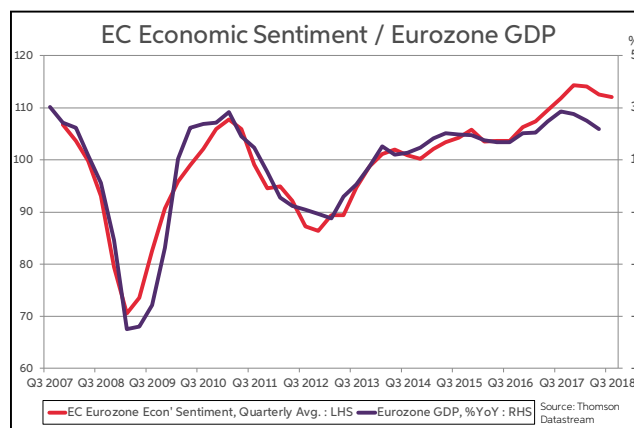


The Long and Short of It

- **There have been notable moves in US currency and bond markets recently. The dollar has retreated after making good gains over the summer**, with the euro rising from \$1.13 to close on the \$1.16 level since the middle of August. Meanwhile, **ten year Treasury yields have declined to near 2.8% from 3% at the start of the month**. Market positioning may have been a key factor in these moves. The market is very long the dollar and short US Treasuries and traders could well be moving to close out some of these positions, after significant gains by the dollar and with ten year Treasury yields unable to make a sustained breach above the 3% level.
- It is hard to attribute the moves to US data or monetary policy, with the economy continuing to do well and the Fed sticking to its steady rate tightening path. No great change is anticipated in either anytime soon. **If a real market shock is coming, its genesis is likely to be in emerging markets**. Some large developing economies are in serious difficulties—notably Turkey, South Africa, Argentina, Brazil and Indonesia. Meanwhile, there are some signs of slowing in activity in China. This would not be good news for other emerging economies. Neither is the softening in some commodity prices in recent months.
- The links between advanced economies and emerging markets have grown via international trade, but also via finance through direct investments and loans. What happens in emerging markets is of global importance, as they now account for 40% of the world economy, up from 15% at the time of the Asian crisis 20 years ago. **We view the difficulties in emerging economies as the main near-term risk for markets, so they bear close watching**.
- **In terms of the week ahead, there is another raft of Eurozone survey data for August due**. This includes the latest EC sentiment indices. The headline Eurozone Economic Sentiment Index is forecast to be broadly unchanged in August, continuing to point to a moderate pace of economic expansion. This would mirror last week's flash Eurozone Composite PMI. The German Ifo and Italian ISTAT indices will provide some updates on the performance of the economy at a national level.
- **We also get some Eurozone data that will form important inputs into the ECB's policy deliberations at its next meeting (13th Sept)**. Headline Eurozone HICP inflation has risen to over 2% recently, largely due to the impact of higher oil prices. However, the core measure, which excludes changes in energy prices, has remained subdued, coming in at 1.3% in July. No changes are expected from either measure in August. A continuing source of positivity in the Eurozone has been the on-going improvement in the labour market. **The Eurozone unemployment rate fell to 8.3% in May/June, its lowest level in a decade. It is forecast to have fallen to 8.2% in July**.
- **There is a consumer theme to the calendar in the US**. Core-PCE inflation has been hovering around the Fed's 2% target rate since March and the consensus is that it will remain there in July. Meantime, personal consumption is forecast to have recorded another healthy increase in July. Meanwhile, the Conference Board measure of consumer confidence is anticipated to have edged down in August, while remaining at a very strong level.
- **In the UK, the data schedule remains light**. Indeed, Nationwide house prices for August and BoE mortgage approvals for July are the main releases of note. **In Ireland, the Labour Force Survey for Q2 is due**. Indicators in the quarter (i.e. PMI employment components, unemployment and Live Register) suggested that the jobs market continued to grow apace. Year-on-year growth in employment could remain around 3% in the quarter.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2018	2018	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	End Q4	End Q1
		2018	2018	2019
EUR/USD	1.1628	1.15	1.16	1.17
EUR/GBP	0.9032	0.90	0.89	0.88
EUR/JPY	129.23	127	126	126
GBP/USD	1.2871	1.28	1.30	1.33
USD/JPY	111.15	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Praet (Tuesday); Weidmann (Thursday); de Guindos (Friday)		
Mon 27th	GER: 09.00	Ifo Business Climate (August)	101.7	101.9
	US: 13.30	Chicago Fed National Activity Index (July)	0.43	
Tue 28th	FRA: 06.45	GDP (Q2: Final Reading)	+0.2% (p)	+0.2%
	FRA: 07.45	Consumer Confidence (August)	97	97
	ITA: 09.00	ISTAT Business Confidence (August)	106.9	106.2
	ITA: 09.00	Consumer Confidence (August)	116.3	115.9
	EU-19: 09.00	M3 Money Supply (July)	(+4.4%)	(+4.3%)
	IRL: 11.00	Retail Sales (July)	-3.4% (+7.0%)	+12.0% (+5.0%)
	IRL: 11.00	LFS—Employment (Q2)	(+2.9%)	(+3.1%)
	US: 13.30	Advanced Goods Trade Balance (July)	-\$67.9bn	
	US: 14.00	Case-Shiller House Prices (June)	(+6.5%)	(+6.4%)
	US: 15.00	Consumer Confidence (August)	127.4	126.5
Wed 29th	GER: 07.00	Gfk Consumer Sentiment (September)	10.6	10.6
	UK: 07.00	Nationwide House Prices (August)	+0.6% (+2.5%)	+0.1% (+2.6%)
	FRA: 07.45	Consumer Spending (July)	+0.1%	
	US: 13.30	GDP (Q2: Second Reading)	+4.1% s.a.a.r. (p)	+4.0%
	US: 15.00	Pending Homes Sales Index (July)	+0.9% / 106.9	
Thurs 30st	GER: 08.55	Unemployment (August)	5.2%	5.2%
	UK: 09.30	BoE Mortgage Approvals (July)	65,619	65,150
	EU-19: 10.00	EC Business Climate (August)	1.29	1.26
	EU-19: 10.00	EC Economic Sentiment (August)	112.1	112.0
		- Industrial / Services / Consumer	5.8 / 15.3 / -1.9	5.5 / 15.0 / -1.9
	GER: 13.00	Preliminary HICP (August)	(+2.1%)	(+2.1%)
	US: 13.30	Personal Income / Consumption (July)	+0.4% / +0.4%	+0.4% / +0.4%
		- Core-PCE Prices	(+1.9%)	(+2.0%)
	US: 13.30	Initial Jobless Claims (w/e 25th August)	210,000	214,000
Fri 31st	UK: 00.01	Gfk Consumer Confidence (August)	-10	-10
	JPN: 00.30	Unemployment / Jobs : Applicants (July)	2.4% / 1.62	2.4% / 1.62
	JPN: 00.50	Preliminary Industrial Output (July)	-1.8%	+0.2%
	CHINA: 02.00	NBS Manufacturing PMI (August)	51.2	51.0
		- Non-Manufacturing	54.0	
	GER: 07.00	Retail Sales (July)	+1.2%	0.0%
	FRA: 07.45	Preliminary HICP (August)	(+2.6%)	(+2.6%)
	ITA: 09.00	Unemployment (July)	10.9%	10.8%
	ITA: 10.00	Preliminary HICP (August)	(+1.9%)	(+1.6%)
	EU-19: 10.00	Flash HICP (August)	(+2.1%)	(+2.1%)
		- Ex-Food & Energy	(+1.3%)	(+1.3%)
	EU-19: 10.00	Unemployment (July)	8.3%	8.2%
	ITA: 11.00	GDP (Q2: Second Reading)	+0.2% (p)	+0.2%
	US: 15.00	Final Michigan Consumer Sentiment (August)	97.9 / 95.3 (p)	95.5

◆ 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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