

Falling Down

- Once again, moves in sterling caught the eye on currency markets last week.** The stand out move was the EUR/GBP pair breaching 92p, a level that had provided a key support to sterling in the aftermath of last year's Brexit vote. In the process, the pair traded up to its highest levels in 8 years and a sustained break above this mark could underpin the pair moving up to the 94-95p band over the coming months. There are two aspects to the pair's recent performance. The euro has benefitted from reduced political risk, encouraging macro newsflow and a less dovish sounding ECB. At the same time, sterling has been negatively impacted by weaker UK macro data, political risk, reduced expectations of a near term BoE rate hike and Brexit related uncertainty. The Brexit negotiations, which so far have made little progress, reconvene this week. They will be a key determinant of sterling's performance over the coming months. Progress towards a 'soft' Brexit could help push sterling back below 90p, but if a 'hard' Brexit scenario looks more likely, then EUR/GBP could well move up towards the 94-95p range, or beyond.
 - Data-wise this week, there is a busy schedule of releases in the US,** with the main focus being on August non-farm payrolls. In July, payrolls printed ahead of market expectations with a 209,000 gain in the month, with upward revisions to May/June also. For August, market expectations are for payroll growth to slow somewhat, but remain at a very solid level of 184,000. Year to date, payrolls have averaged 184,000, which is practically identical to the 187,000 average for 2016, indicating that job creation in the US economy remains both consistent and strong. Aside from the jobs growth numbers, we also get the unemployment rate for August, with the consensus for it to remain at a 16-year low of 4.3%. Despite the on-going signs of a tightening labour market, wage growth remains subdued and this week's average hourly earnings data are unlikely to alter this view.
- US Non-Farm Payrolls**

Chg on Mth '000's

3 Month Moving Average

Source: Thomson Datastream
- Aside from the raft of labour market metrics, the US diary also features some key updates on the all-important consumer spending sector of the economy.** This includes personal consumption/income data for July. The consumption figures are expected to show a pick up in the monthly pace of spending after the previous month's modest growth. In terms of a timelier snapshot of the household sector, the August Conference Board measure of consumer confidence is anticipated to be broadly unchanged from its July reading, remaining at a very high level. Meantime, following the release of the Fed's July meeting minutes showing differing views within the FOMC on the outlook for inflation, its preferred measure of inflation, core PCE, will garner plenty of attention. Inflation is expected to have picked up marginally, to 1.6%.
 - From a Eurozone viewpoint, with the ECB gradually rowing back on its easing bias, the flash reading of HICP inflation for August is a top tier release.** Both headline and core inflation came in at 1.3% in July, well below the ECB's target of "close to, but below 2%". For August, the general consensus is that inflation will remain muted, with a modest increase, to 1.4%, being pencilled in for the headline measure and the core rate dropping to 1.2%. The EC sentiment indices for August are also due. Similar to last week's flash PMIs, the indices are likely to indicate that the Eurozone economy continues to maintain its strong momentum.
 - In the UK, the schedule is relatively sparse in terms of noteworthy data releases.** Of the few highlights there are, the manufacturing PMI for August is expected to register further improvement, consistent with better growth in the sector. House price data and consumer confidence are the only other UK releases of note.

	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	1.1861	1.18	1.16	1.14
EUR/GBP	0.9225	0.91	0.89	0.87
EUR/JPY	129.65	131	131	131
GBP/USD	1.2852	1.30	1.30	1.31
USD/JPY	109.30	111	113	115

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	Fed Speakers:	Evans (Tuesday); Powell (Wednesday)		
	ECB Speakers:	Nowotny (Friday)		
Mon 28th	UK:	August Bank Holiday (Market Holiday)		
	ITA: 09.00	ISTAT Business Confidence (August)	107.7	108
	ITA: 09.00	Consumer Confidence (August)	106.7	106.9
	EU-19: 09.00	M3 Money Supply (July)	(+5.0%)	(+4.9%)
	IRE: 11.00	Retail Sales (July)	-4.8% (+4.1%)	+12% (+1.9%)
Tue 29th	JPN: 00.30	Unemployment / Jobs:Applicants (July)	2.8% / 1.51	2.8% / 1.52
	GER: 07.00	Gfk Consumer Sentiment (September)	10.8	10.8
	UK: 07:00	Nationwide House Prices (August)	+0.3% (+2.9%)	
	FRA: 07.45	Consumer Spending (July)	-0.8%	+0.7%
	FRA: 07.45	GDP (Q2: Second Reading)	+0.5%	+0.5%
	US: 14.00	Case-Shiller House Prices (June)	+0.1% (+5.7%)	+0.2% (5.7%)
	US: 15.00	Consumer Confidence (August)	121.1	120
Wed 30th	UK: 09.30	BoE Mortgage Approvals (July)	64,684	65,500
	EU-19: 10.00	EC Business Climate (August)	1.05	1.06
	EU-19: 10.00	EC Economic Sentiment (August)	111.2	111.3
		- Industrial / Services / Consumer	4.5 / 14.1 / -1.5	4.7 / 13.9 / -1.5
	GER: 13.00	Preliminary HICP (August)	(+1.5%)	(+1.7%)
	US: 13.30	GDP (Q2: Second Reading)	+2.6% s.a.a.r.	+2.7% s.a.a.r.
Thurs 31st	UK: 00.01	Gfk Consumer Confidence (August)	-12	-13
	JPN: 00.50	Industrial Output (July)	+2.2%	-0.5%
	CHINA: 02.00	NBS Manufacturing PMI (August)	51.4	51
		- Non-Manufacturing	54.5	54
	GER: 07.00	Retail Sales (July)	+1.1% (+1.5%)	-0.3% (+3.5%)
	FRA: 07.45	Preliminary HICP (August)	(+0.8%)	(+1.0%)
	GER: 09.00	Unemployment (August)	5.7%	5.7%
	ITA: 09.00	Unemployment (July)	11.1%	11.1%
	ITA: 10.00	Preliminary HICP (August)	(+1.2%)	(+1.3%)
	EU-19: 10.00	Flash HICP (August)	(+1.3%)	(+1.4%)
		- Ex-Food & Energy	(+1.3%)	(+1.2%)
	EU-19: 10.00	Unemployment (July)	9.1%	9.1%
	US: 13.30	Personal Income / Consumption (July)	+0.0% / +0.1%	+0.3% / +0.4%
		- Core PCE Prices	+0.1% (+1.5%)	+0.1 (+1.5%)
	US: 13.30	Initial Jobless Claims (w/e 26th August)	234,000	237,000
	US: 15.00	Pending Homes Sales Index (June)	+1.5% / 110.2	
Fri 1st	ITA: 09.00	GDP (Q2: Second Reading)	+0.4% (+1.5%)	+0.4% (+1.5%)
	EU-19: 09.00	Final Markit Manufacturing PMI (August)	57.4	57.4
	UK: 09.30	CIPS/Markit Manufacturing PMI (August)	55.1	55.0
	US: 13.30	Non-Farm Payrolls (August)	209,000	184,000
		- Unemployment	4.3%	4.3%
		- Average Earnings	+0.3% (+2.5%)	+0.2% (+2.5%)
	US: 15.00	Construction Spending (July)	-1.3%	+0.5%
	US: 15.00	Manufacturing ISM (August)	56.3	56.5
	US: 15.00	Final Michigan Consumer Sentiment (August)	97.6	97

◆ 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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