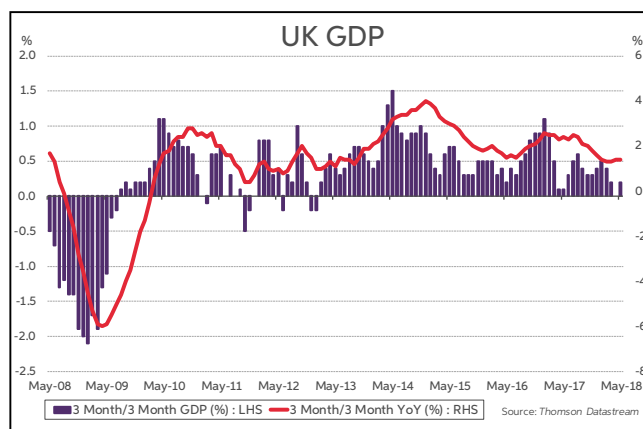


Take It Easy

- More evidence that monetary policy is now in a tightening phase was provided by the various central bank meetings of the past week.** The Czech Central Bank implemented its first back-to-back rate hikes in eleven years when it raised rates by 25bps to 1.25%. There was a unanimous vote by the MPC in the UK to raise rates by 25bps to 0.75%, the second hike in less than a year. Meanwhile, the Bank of Japan guided that it is willing to allow more flexibility in bond yield movements, with the markets responding by pushing yields higher. Finally, the Fed appeared to validate expectations of two further US rate hikes this year, with an upbeat assessment of the current state of the US economy. **Central banks, though, continue to emphasise that monetary tightening will proceed at a cautious pace, with BoE Governor Carney saying it needs “to walk not run”.**
- Bond yields have risen in the past couple of weeks, but still remain well below their levels at the start of the summer.** It is hard to see bond markets breaking new ground anytime soon. All the main central banks are likely to take to the side lines for the remainder of the year, with the exception of the Fed. However, futures contracts have already largely discounted two further rate increases in the US by end year, so Fed rate hikes are unlikely to be market moving events.
- Currency markets may provide more action. Sterling has weakened in recent months amidst growing concerns about Brexit.** The euro has risen by around 3 pence since early summer, but support for sterling is holding at the 89.5p level. The UK currency is likely to be further tested, though, by the difficult exit negotiations that lie ahead and the challenges of getting any withdrawal agreement through Parliament. **The euro, itself, is under pressure against a resurgent dollar, but strong support for the single currency at around the \$1.15-1.16 level** has held so far despite mounting tensions over trade. Even if this gives way, there is further strong technical support for the euro around the \$1.12-1.13 level.
- In the week ahead, after a very busy few days, the calendar has a much lighter look to it.** Most of the main releases are from the UK. This includes the first reading of Q2 GDP. The PMIs and hard data (particularly retail sales) in the quarter indicated that growth improved. **Indeed, the consensus forecast is for quarterly growth of 0.4% in Q2, compared to 0.2% in Q1.** Weak growth in 2017 means that the pace of year-on-year growth should edge up slightly to 1.3% in Q2, from Q1's six-year low of 1.2%.
- The UK calendar also includes some data for June.** Industrial production declined by 1.3% in April/May compared to Q1, partly due to a weakening in demand for UK exports. Output is anticipated to have seen a modest pick-up in June, though the sector will still likely have acted as a drag on growth in Q2. UK goods exports fell to a 19-month low in value terms in April, before edging up slightly in May. The forecast for the goods trade balance in June is for a slight improvement, though the deficit should remain at a very high level.
- CPI inflation figures for July are the main release of note in the US.** The annual rate has picked up in recent months, partly due to a recovery in oil prices. Headline inflation is expected to edge higher to 3% in July, while the core measure (excludes changes in energy prices) is seen holding at a more modest 2.3%.
- German and French industrial production figures for June are the main releases of a very sparse Eurozone schedule.** Mixed results are forecast, with a modest decline seen in Germany and an improvement in France.



	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	1.1562	1.17	1.19	1.21
EUR/GBP	0.8896	0.88	0.87	0.86
EUR/JPY	128.82	129	129	129
GBP/USD	1.2992	1.33	1.37	1.41
USD/JPY	111.41	110	108	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	Fed Speakers:	Barkin (Wednesday)		
Mon 6th	IRL:	August Bank Holiday		
	GER:	07.00 Industrial Orders (June)	+2.6%	-0.3%
	UK:	07.30 Halifax House Prices (July)	+0.3% (+1.8%)	+0.2% (+2.6%)
	EU-19:	09.30 Sentix Index (August)	12.1	13.0
Tue 7th	UK:	00.01 BRC Retail Sales (July)	(+1.1%)	
	AUS:	05.30 RBA Interest Rate Announcement	1.50%	1.50%
	JPN:	06.00 Leading Indicators Index (June)	+0.7% / 106.9	
	GER:	07.00 Industrial Output (June)	+2.6%	-0.5%
	GER:	07.00 Trade Balance (June) - Exports	€20.3bn +1.8%	€20.2bn -0.1%
Wed 8th	CHINA:	02.00 Trade Balance (July) - Exports	\$41.6bn (+11.3%)	\$38.8bn (+10.0%)
	JPN:	06.00 Economy Watchers' Poll (July)	48.1	
	NZL:	22.00 RBNZ Interest Rate Announcement	1.75%	1.75%
Thurs 9th	UK:	00.01 RICS House Price Survey (July)	2	4
	JPN:	00.50 Core Machinery Orders (June)	(+16.5%)	(+9.5%)
	IRL:	11.00 CPI (July)	+0.1% (+0.4%)	+0.1% (+0.5%)
	US:	13.30 Initial Jobless Claims (w/e 4th August)	218,000	220,000
	US:	13.30 PPI (July)	(+3.4%)	(+3.4%)
Fri 10th	JPN:	00.50 Domestic Wholesale Prices (July)	(+2.8%)	(+2.9%)
	JPN:	00.50 GDP (Q2: First Reading)	-0.2% / -0.6% s.a.a.r.	+0.3% / +1.4%
	FRA:	07.45 Industrial Output (June)	-0.2%	+0.5%
	UK:	09.30 GDP (Q2: First Reading)	+0.2% (+1.2%)	+0.4% (+1.3%)
	UK:	09.30 Industrial Output (June) - Manufacturing	-0.4% (+0.8%) +0.4% (+1.1%)	+0.4% (+0.8%) +0.3% (+1.0%)
	UK:	09.30 Goods Trade Balance (June) - Non-EU	-£12.36bn -£3.49bn	-£12.10bn -£3.60bn
	US:	13.30 CPI (July) - Core (Ex-Food & Energy)	(+2.9%) (+2.3%)	(+3.0%) (+2.3%)
	US:	19.00 Federal Budget (July)	-\$75.0bn	

◆ 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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