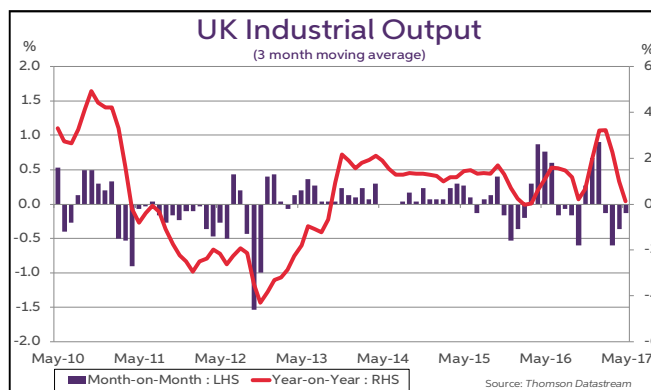


You take the high road

- The Czech Central Bank hiked rates on Thursday for the first time since the financial crisis, following a similar move by the Bank of Canada last month, as they joined the tightening trail blazed by the US Fed. **While monetary policy will remain very loose globally, the hikes indicate that the era of monetary easing is drawing to a close** and gradual tightening is likely in the period ahead. Markets remain sanguine, though, convinced that continuing low inflation will restrict the ability of central banks to tighten policy to any great extent. Broad market positioning data show that short bets against the dollar have risen to their highest level since early 2013.
- **The sanguine mood of markets was again on show this week in their response to the MPC meeting in the UK.** The Bank of England warned that if the economy evolves in line with its expectations over the next couple of years, then rates may need to rise by a “somewhat greater extent” than markets are pricing in. Bizarrely, the reaction of markets was to price in less tightening as short sterling interest rate futures rallied, with a marked drop in gilt yields. Meanwhile, sterling lost significant ground, falling by around 1% on the exchanges.
- **It appears markets attached more weight to a slight downward revision to the BoE’s growth forecasts than its rates warning,** even though the revisions were simply due to the Bank taking on board weaker than expected GDP figures in H1, which should not have been news to traders. Indeed, the BoE expects the UK to register solid growth of 1.7% over the 2017-19 period, assuming that it achieves a “smooth” exit from the EU.
- **The disconnect between the BoE and markets, though, is nowhere near as great as in the US, where a wide gap persists between Fed projections for a continuation of steady rate hikes and market expectations** of only limited further rate tightening. How this difference is resolved is likely to be a key driver of interest rate and currency markets over the coming eighteen months.

- **A light data schedule in the week ahead seems unlikely to provide much in the way of fresh market direction.** Of the data which are due, markets will be looking to UK industrial production data for June as they assess the current struggles of the sector. The preliminary estimate of UK Q2 GDP showed that production dragged on growth, not helped by declines in the volatile pharmaceuticals sector. Output is expected to have shown only a slight rise in June.



- Meantime, **despite the weakening in sterling since the Brexit vote, the UK’s large goods trade deficit has shown little sign of improvement.** Indeed, it is anticipated to have remained at over £11bn in June. This, combined with the data from April/May, suggests that net trade may have acted as a drag on growth in Q2.
- **The main release of note in the US is July CPI data.** Inflation has slowed sharply in recent months as the boost from higher oil prices unwound. Headline inflation fell from 2.7% in February to 1.6% in June. It is predicted to have edged up to 1.7% in July (matching the core inflation measure) perhaps reflecting some recovery in oil prices in the month. The Fed’s preferred core-PCE inflation measure remained subdued at 1.5% in June.
- **In the Eurozone, industrial output data from the currency bloc’s three largest economies—Germany, France and Italy—for June will be looked to ahead of next week’s aggregate Eurozone release.** Production rose strongly in all three countries in April/May, as the energy sector rebounded. German and Italian industry are expected to have added to their recent gains, while French output is forecast to edge down slightly.

	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	1.1803	1.17	1.17	1.16
EUR/GBP	0.9040	0.89	0.89	0.90
EUR/JPY	130.84	130	130	130
GBP/USD	1.3057	1.31	1.31	1.29
USD/JPY	110.82	111	111	112

Current Rates Reuters, Forecasts AIB’s ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	Fed Speakers:	Bullard, Kashkari (Monday); Dudley (Thursday); Kaplan, Kashkari (Friday)		
Mon 7th	IRL:	August Bank Holiday		
	JPN: 06.00	Leading Indicators Index (June)	0.5	
	GER: 07.00	Industrial Output (June)	+1.2%	+0.2%
	UK: 08.30	Halifax House Prices (July)	-1.0% (+2.6%)	+0.2% (+2.0%)
	EU-19: 09.30	Sentix Index (August)	28.3	27.8
	US: 20.00	Consumer Credit (June)	\$18.41bn	\$15.84bn
Tue 8th	UK: 00.01	BRC Retail Sales (July)	(+1.2%)	
	JPN: 00.50	Current Account (June)	¥1653.9bn	¥814.0bn
	JPN: 06.00	Economy Watchers' Index (July)	50	
	GER: 07.00	Trade Balance (June)	€20.3bn	€21.0bn
		- Exports	+1.4%	-0.1%
	FRA: 07.45	Trade Balance (June)	-€5.54bn	
		- Exports	+4.3%	
	US: 11.00	NFIB Business Optimism Index (July)	103.6	
Wed 9th	CHINA: 02.00	Trade Balance (July)	\$42.77bn	\$46.08bn
		- Exports	(+11.3%)	(+10.9%)
	ITA: 09.00	Industrial Output (June)	+0.7% (+2.8%)	+0.3% (+3.2%)
	IRL: 11.00	Residential Property Prices (June)	+2.2% (+11.9%)	+1.0% (+11.9%)
Thurs 10th	UK: 00.01	RICS House Price Index (July)	7	8
	JPN: 00.50	Domestic Wholesale Prices (July)	0.0% (+2.1%)	+0.2% (+2.4%)
	JPN: 00.50	Core Machinery Orders (June)	-3.6% (+0.6%)	+3.7% (-1.0%)
	FRA: 07.45	Industrial Output (June)	+1.9%	-0.4%
	UK: 09.30	Industrial Output (June)	-0.1% (-0.2%)	+0.1% (-0.2%)
		- Manufacturing	-0.2% (+0.4%)	0.0% (+0.7%)
	UK: 09.30	Goods Trade Balance (June)	-£11.86bn	-£11.10bn
		- Non-EU	-£3.80bn	-£3.00bn
	IRL: 11.00	CPI (July)	+0.1% (-0.4%)	0.0% (-0.2%)
	US: 13.30	Initial Jobless Claims (w/e 5th August)	240,000	242,000
	US: 13.30	PPI (July)	+0.1% (+2.0%)	+0.1% (+2.3%)
	US: 19.00	Federal Budget (July)	-\$90.0bn	
Fri 11th	GER: 07.00	Final HICP (July)	(+1.5%) (p)	(+1.5%)
	FRA: 07.45	Final HICP (July)	(+0.8%) (p)	(+0.8%)
	FRA: 07.45	Non-Farm Payrolls (Q2)	+0.4%	
	ITA: 09.00	Final HICP (July)	(+1.2%) (p)	(+1.2%)
	US: 13.30	CPI (July)	0.0% (+1.6%)	+0.1% (+1.7%)
		- Ex-Food & Energy	+0.1% (+1.7%)	+0.2% (+1.7%)

◆ 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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