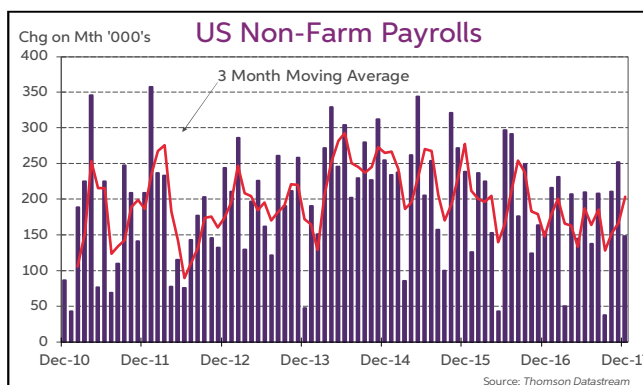


It's Complicated

- The slide of the dollar continued unabated in the past week, with the euro vaulting to over \$1.25 and cable soaring above \$1.40 to hit \$1.43**, before finishing the week nearer to \$1.24 and \$1.42, respectively. Thus, sterling has regained a foothold above the \$1.38-1.40 level that represented the floor for cable from 1985 until the Brexit referendum vote in June 2016. Again, there were no obvious triggers for the fall in the dollar, though US Treasury Secretary Mnuchin's comments that the decline was good for US trade were not helpful. **The greenback remains friendless on currency markets, with stretched positioning and possible repatriation flows to take advantage of a low US corporate tax rate amnesty, the main glimmers of hope for the dollar.**
- Currency moves are providing a fresh headache for the ECB as the euro's sharp appreciation against the dollar over the past year makes the task of getting inflation back up to near 2% even more difficult to achieve.** Hence, President Draghi continues to emphasise the need for ECB monetary policy to remain very accommodative, despite the marked pick-up in economic activity in the Eurozone. He even noted that currency strength could cause the ECB to think about its monetary strategy. Markets, though, ignored this and continued to push German bund yields upwards, as they hit their highest level since 2015 in the expectation that the ECB will move on to a rate tightening path early next year.
- Following on from the ECB, the Fed meeting will be in focus this week.** No policy changes are anticipated, with the FOMC only having announced a 25bps hike at its last meeting in December. The Fed is projecting three further hikes this year, which would bring rates to 2.125%. Futures contracts suggest markets have now largely 'come on board' with this outlook and are pricing in the next rate increase for March. **Markets will be analysing the meeting statement to see if the economy continues to evolve in line with expectations and that the Fed is likely to hike in March.** Assuming that this is the case, then overall market reaction to the meeting may be limited.
- Of more interest for US economy watchers in the week ahead may be the key data release of the month, the January employment report.** Non-farm payrolls surprised to the downside in December (+148k vs forecast 190k), though a firmer 178k rise is predicted for January. There has been some suggestion that the tightness of the labour market (unemployment rate forecast to remain at just 4.1% this week) is constraining new hiring. Indeed, the NFIB's lack of 'qualified job applicants' index jumped to an all-time high in December.



- The tight labour market has yet to translate into a marked acceleration in wage inflation. Average earnings growth is expected to have edged up to 2.7% in January, though. **The Fed's preferred Employment Costs Index 'wages and salaries' measure of employee compensation looks set to have risen to 2.7% in Q4, from 2.5% in Q3.**
- There is also a busy Eurozone schedule, which includes the first reading of Q4 GDP.** The Composite PMI was very strong in the quarter, pointing to growth of 0.7%-0.8%. **The consensus is for a third consecutive 0.7% increase, suggesting average annual growth of 2.5%**, the bloc's best performance since 2007. The timelier EC sentiment indices, which include the key Economic Sentiment Index, look set to indicate the economy maintained its stronger momentum at the start of 2018, mirroring last week's PMIs. Meantime, flash HICP data are likely to show that inflation remained weak (forecast: 1.3%), well below the ECB target of close to, but below, 2%.
- In the UK, the January manufacturing PMI is the main release from a light calendar.** The index is anticipated to come in at 56.5, slightly below Q4's 56.9 average, while still pointing to overall solid growth in the sector. In terms of monetary policy, BoE Governor Carney appears before a UK parliamentary committee on Tuesday.

	Interest Rate Forecasts			
	Current	End Q1 2018	End Q2 2018	End Q3 2018
Fed Funds	1.375	1.625	1.875	1.875
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	0.50	0.50	0.50
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 Q1 2018	End Q2 2018	End Q3 2018
EUR/USD	1.2428	1.22	1.19	1.17
EUR/GBP	0.8748	0.89	0.88	0.87
EUR/JPY	135.34	135	134	135
GBP/USD	1.4207	1.37	1.35	1.34
USD/JPY	108.89	111	113	115

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast	
This Week:	Fed Speakers:	Williams (Friday)			
	ECB Speakers:	Lautenschläger, Praet, Cœuré (Monday); Mersch (Tuesday); Cœuré (Wednesday)			
	BoE Speakers:	Carney (Tuesday)			
Mon 29th	IRL:	11.00	Retail Sales (December)	+2.6% (+6.8%)	-0.5% (6.1%)
	US:	13.30	Personal Income / Consumption (December) - Core-PCE Prices	+0.3% / +0.6% (+1.5%)	+0.3% / +0.4% (+1.5%)
	BEL:	14.00	GDP (Q4: First Reading)	+0.3%	
	JPN:	23.30	Unemployment / Jobs : Applicants (December)	2.7% / 1.56	2.7% / 1.57
Tue 30th	FRA:	06.30	GDP (Q4: First Reading)	+0.6%	+0.6%
	FRA:	07.45	Consumer Spending (December)	+2.2%	+0.2%
	SPAIN:	08.00	GDP (Q4: First Reading)	+0.8%	+0.7%
	ITA:	09.00	ISTAT Business Confidence (January)	110.5	110.8
	ITA:	09.00	Consumer Confidence (January)	116.6	116.3
	UK:	09.30	BoE Mortgage Approvals (December)	65,100	63,500
	EU-19:	10.00	GDP (Q4: First Reading)	+0.7% (+2.8%)	+0.7% (+2.8%)
	EU-19:	10.00	EC Business Climate (January)	1.66	1.70
	EU-19:	10.00	EC Economic Sentiment (January) - Industrial / Services / Consumer	116.0 9.1 / 18.4 / 1.3	116.3 8.9 / 18.6 / 1.3
	IRL:	11.00	Unemployment (January)	6.2%	6.1%
	GER:	13.00	Preliminary HICP (January)	(+1.6%)	(+1.6%)
	US:	14.00	Case-Shiller House Prices (November)	+0.7% (+6.4%)	+0.7% (+6.4%)
	US:	15.00	Consumer Confidence (January)	122.0	123.0
	JPN:	23.50	Industrial Output (December)	+0.5%	+1.6%
Wed 31st	CHINA:	01.00	NBS Manufacturing PMI (January) - Non-Manufacturing	51.6 55.0	
	GER:	07.00	Retail Sales (December)	+2.3% (+4.4%)	-0.3% (+2.8%)
	FRA:	07.45	Preliminary HICP (January)	(+1.2%)	(+1.1%)
	GER:	09.00	Unemployment (January)	5.5%	5.5%
	ITA:	09.00	Unemployment (December)	11.0%	10.9%
	EU-19:	10.00	Flash HICP (January) - Ex-Food & Energy	(+1.4%) (+1.1%)	(+1.3%) (+1.0%)
	EU-19:	10.00	Unemployment (December)	8.7%	8.7%
	US:	13.30	Employment Costs—Wages (Q4)	+0.7% (+2.5%)	+0.6% (2.7%)
	US:	19.00	FOMC Interest Rate Announcement	1.375%	1.375%
Thurs 1st	EU-19:	09.00	Final Markit Manufacturing PMI (January)	60.6 / 59.6 (p)	59.6
	UK:	09.30	CIPS/Markit Manufacturing PMI (January)	56.3	56.5
	IRL:	11.00	Live Register (January)	-2,900 / 241,300	3,300 / 238,000
	US:	13.30	Initial Jobless Claims (w/e 27th January)	233,000	235,000
	US:	15.00	Construction Spending (December)	+0.8%	+0.5%
	US:	15.00	Manufacturing ISM (January)	59.7	59.0
	US:	15.00	Total Vehicle Sales (January)	17.90m s.a.a.r.	17.30m
Fri 2nd	UK:	09.30	CIPS/Markit Construction PMI (January)	52.2	52.0
	ITA:	10.00	Preliminary HICP (January)	(+1.0%)	(+0.8%)
	EU-19:	10.00	PPI (December)	+0.6% (+2.8%)	+0.3% (+2.3%)
	US:	13.30	Non-Farm Payrolls (January) - Unemployment - Average Hourly Earnings	148,000 4.1% +0.3% (+2.5%)	178,000 4.1% +0.3% (+2.7%)
	US:	15.00	Factory Orders (December)	+1.3%	+0.8%
	US:	15.00	Final Michigan Consumer Sentiment (January)	95.9 / 94.4 (p)	95.0
	IRL:	16.30	Exchequer Balance (January)	Jan'17: €1.5bn	€1.6bn

♦ 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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