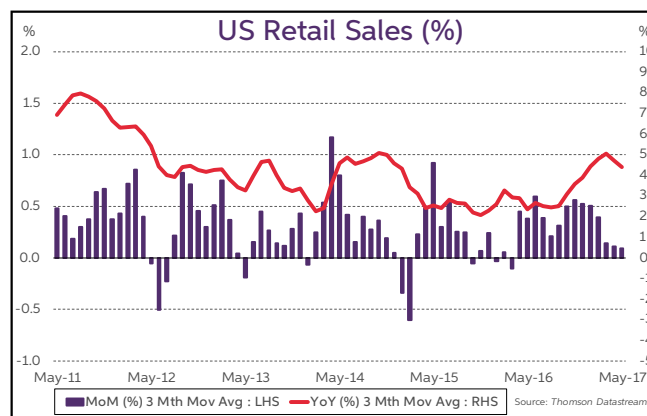


Home on the Range

- Growing expectations that the ECB is likely to taper QE, or run down its monthly asset purchases, next year continues to exert upward pressure on bond yields and the euro.** The euro has risen to above \$1.14 from \$1.04 at the start of the year. In doing so, it has moved close to the top of the \$1.04-1.16 trading range that it has occupied against the dollar since early 2015. Given its recent momentum and the strengthening recovery in the Eurozone economy, there is talk that the euro may soon break out of this range to the upside, which could signal another leg to its rally that takes it up to a \$1.20-1.30 range
- Caution is warranted on this front, though, as continuing very low inflation is likely to mean that the ECB's monetary stimulus will be withdrawn only very slowly,** with interest rates remaining negative in the Eurozone for another couple of years at least. By contrast, the Fed appears to have moved on to a steady rate tightening path and is also expected to soon begin reducing the size of its balance sheets as it starts to unwind QE. The recent strong US jobs gains point to further Fed tightening. Market positioning is also long euros at this stage which may constrain its upside. Thus, the euro-dollar rate may remain range bound for quite some time yet.
- In the week ahead, given the focus on monetary policy, Fed Chair Yellen's semi-annual testimony to Congress will be closely watched.** Markets will be looking for more concrete indications regarding the FOMC's timeline for commencing balance sheet normalisation, given that the question was left somewhat open in the recent Fed minutes. They will also be looking for confirmation of the FOMC's intention to hike rates again before the end of this year, as it is currently guiding. Markets have not yet fully priced in another hike by the end of this year.

- Data-wise, US retail sales are expected to improve only modestly in June, after May's unexpected decline** as a result of depressed gasoline prices. However, it is important to note that real consumer spending growth rose in April/May, suggesting a likely improvement in overall consumption in the second quarter. The timelier Michigan measure of consumer sentiment is forecast to remain at a strong level at the start of Q3. Meantime, **CPI inflation is expected to edge further below 2% in June,** mirroring the recent easing in the Fed's preferred PCE measure of price pressures.



- In the UK, the focus will be on a raft of labour market data for the three months to May.** Employment is expected to have risen by 123k, an improvement on the modest 43k increase seen in the previous three months. The unemployment rate is expected to have edged down to 4.6%, from 4.7%. However, growth in average earnings looks set to have slowed further, declining to 1.8% year-on-year in the three months to May. Weaker wage growth is a major source of concern in the UK, given the importance of the consumer sector to economic growth. In that regard, BRC retail sales for June will be looked to ahead of the following week's official data.
- The main release of a light Eurozone calendar is May industrial production.** A strong rise is expected following on from last week's positive national level data. Eurozone international trade figures for May are also due, while the Sentix index will give us an early read of the economy in July.
- In Ireland, we get Q1 National Accounts.** Data in the quarter pointed to continuing strong growth, with domestic production, retail sales, construction activity and the jobs market all performing well. Thus, **we expect year-on-year growth to have remained strong in Q1.** The release will be of added interest as it includes the CSO's new GNI* measure of underlying (i.e. ex-distortion from multinationals) economic growth. A busy Irish calendar also includes the release of the Government's 'Summer Economic Statement'. **Finally, the Bank of Canada is expected to raise interest rates** (0.5% to 0.75%) for the first time since 2010.

	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	1.1394	1.13	1.12	1.11
EUR/GBP	0.8841	0.88	0.87	0.87
EUR/JPY	129.71	128	128	128
GBP/USD	1.2884	1.28	1.29	1.28
USD/JPY	113.85	113	114	115

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Coeuré (Monday)		
	Fed Speakers:	Williams (Monday); Brainard, Kashkari (Tuesday); Gero (Wednesday); Evans (Thursday); Kaplan (Friday)		
Mon 10th	JPN:	00.50 Core Machinery Orders (May)	-3.1% (+2.7%)	+1.7% (+7.7%)
	JPN:	06.00 Economy Watchers' Index (June)	48.6	
	GER:	07.00 Trade Balance (May)	€19.8bn	€20.3bn
		- Exports	+0.9%	+0.3%
	EU-19:	09.30 Sentix Index (July)	28.4	28.4
	US:	20.00 Consumer Credit (May)	\$8.2bn	\$11.9bn
Tue 11th	UK:	00.01 BRC Retail Sales (June)	(-0.4%)	
	ITA:	09.00 Industrial Output (May)	-0.4% (+1.0%)	+0.2% (+2.1%)
	US:	11.00 NFIB Small Business Optimism (June)	104.5	
	IRL:	11.00 Residential Property Prices (May)	+1.1% (+10.5%)	+1.0% (+11.0%)
Wed 12th	JPN:	00.50 Domestic Wholesale Prices (June)	0.0% (+2.1%)	0.0% (+2.1%)
	UK:	09.30 Employment Growth (3 Months to May)	43,000	123,000
		- ILO Unemployment	4.7%	4.6%
	UK:	09.30 Average Weekly Earnings (3 Months to May)	(+2.2%)	(+1.8%)
		- Ex-Bonus	(+2.0%)	(+1.9%)
	EU-19:	10.00 Industrial Production (May)	+0.5% (+1.4%)	+0.8% (+3.8%)
	CAN:	15.00 BoC Interest Rate Announcement	0.50%	0.75%
	US:	15.00 Fed Chair Yellen Appears Before House Financial Services Committee		
	IRL:	Dept. of Finance Publish Summer Economic Statement		
Thurs 13th	UK:	00.01 RICS House Price Survey (June)	17	15
	GER:	07.00 Final HICP (June)	+0.2% (+1.5%) (p)	+0.2% (+1.5%)
	FRA:	07.45 Final HICP (June)	0.0% (+0.8%) (p)	0.0% (+0.8%)
	IRL:	11.00 CPI (June)	-0.2% (+0.2%)	+0.5% (0.0%)
	US:	15.00 Fed Chair Yellen Appears Before Senate Banking Committee		
	US:	13.30 Initial Jobless Claims (w/e 8th July)	248,000	243,000
	US:	13.30 PPI (June)	0.0% (+2.4%)	0.0% (+1.9%)
Fri 14th	CHINA:	02.00 Trade Balance (June)	\$40.8bn	\$42.4bn
		- Exports	(+8.7%)	(+8.7%)
	ITA:	09.00 Final HICP (June)	-0.2% (+1.2%) (p)	-0.2% (+1.2%)
	EU-19:	10.00 International Trade Balance (May)	€17.9bn	
	IRL:	11.00 GDP (Q1)	(+7.2%)	(+5.9%)
	US:	13.30 CPI (June)	-0.1% (+1.9%)	+0.1% (+1.7%)
		- Ex-Food & Energy	+0.1% (+1.7%)	+0.2% (+1.8%)
	US:	13.30 Retail Sales (June)	-0.3%	+0.2%
		- Ex-Autos	-0.3%	+0.2%
		- Ex-Gas, Autos & Building Materials	0.0%	+0.3%
	US:	14.15 Industrial Output (June)	0.0%	+0.3%
		- Capacity Utilisation	76.6%	76.7%
	US:	15.00 Business Investment (May)	-0.2%	+0.3%
	US:	15.00 Prelim' Michigan Consumer Sentiment (July)	95.1	95.0

◆ 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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