

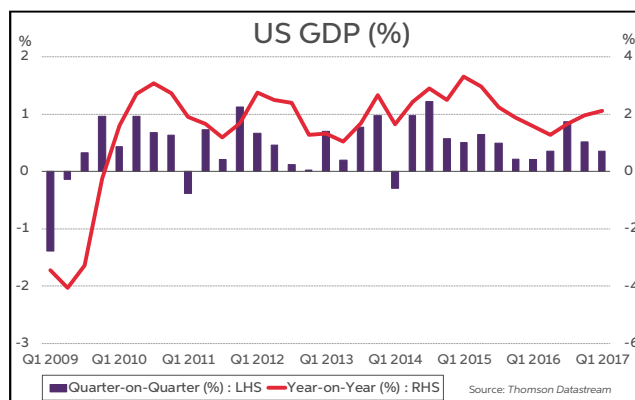
Summer pep in the euro's step

■ **The action on currency markets in the past week has seen the euro's recent ascent gather further momentum.** Despite the July meeting of the ECB being overall dovish in tone, the euro managed to trade higher. Euro bulls appeared to take encouragement from the fact that President Draghi stated that there would be a discussion on its asset purchase programme in the autumn, which means that the ECB could still be on track to taper QE (currently at €60bn per month) in 2018. **At the same time, both sterling and the dollar have been on the back foot.** In the UK, weaker than expected June inflation data have been viewed by sterling watchers as reducing the prospect of a BoE rate hike in the near term. Brexit related uncertainty has also been unhelpful. On the dollar side, the inability of Republicans to pass healthcare reform and further negative newsflow in relation to President Trump have weighed on the US currency.

■ In level terms, **all of the above translates into EUR/GBP trading above 89p. Meanwhile, EUR/USD is trading above \$1.16**, testing the upper limits of the trading range that has been in place since early 2015. Given recent momentum, the euro could well sustain a break to the upside of this range over the summer months. However, interest rate differentials will still likely play a key role in EUR/USD direction. While the ECB remains in easing mode, the US Fed is tightening monetary policy. This should help underpin the dollar as interest rate spreads move more in its favour. Although, it must be noted that markets remain sceptical on the extent of tightening.

■ Therefore, this week's Fed meeting is an important event. No changes to policy are expected, with the FOMC having hiked rates at its last meeting in June. The minutes of this meeting, noted that "it would likely become appropriate this year" to announce and implement a reduction in the size of its balance sheet. Fed Chair Yellen gave no indication in her recent semi-annual testimony that such a move would be announced this week. **Markets will, thus, be analysing the meeting statement for any changes which may suggest that an announcement could happen in September.** Meantime, while the Fed is guiding that it will hike rates again this year, markets do not expect another increase until H1 next year.

■ **Data-wise, the global macro schedule is dominated by GDP releases.** Annualised growth slowed to just 1.4% in the US in Q1, dragged back by weaker consumer spending in the quarter. However, data in Q2 were more encouraging, with real consumer spending growing by 2.6% in annualised terms in April/May, after Q1's 1.1% increase. As a result, **the economy is forecast to have grown by 2.6% in the second quarter.** Meantime, we also get the Employment Costs Index for Q2, which contains the Fed's preferred measure of wage inflation. It is forecast to have remained relatively subdued at 2.4%.



■ **In the UK, GDP is also the focus.** The economy grew by just 0.2% in Q1, as negative impacts from the Brexit vote began to take hold (incl. squeeze on household finances). Q2 data indicated some modest improvement, with retail sales and the jobs markets showing gains. **GDP is anticipated to have risen by 0.3% in the quarter.**

■ **Eurozone data in Q2 have pointed to a further acceleration in growth. French and Spanish GDP figures will provide some early indication on this.** GDP is predicted to have risen by 0.5% in France (from 0.4%) and 0.9% in Spain (0.8%). **There is also a very busy week of Eurozone survey data for July.** This includes the flash Eurozone Composite PMI, which is forecast to remain at 56.3, broadly in line with its Q2 average. Encouraging results are also expected from the EC economic sentiment, German Ifo and French INSEE indices. Therefore, the survey data look set to indicate that the Eurozone has retained its firmer tone at the start of the third quarter.

	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	1.1640	1.13	1.12	1.11
EUR/GBP	0.8956	0.88	0.87	0.87
EUR/JPY	129.58	128	128	128
GBP/USD	1.2993	1.28	1.29	1.28
USD/JPY	111.32	113	114	115

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 24th—Friday 28th July 2017

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	Fed Speakers:		Kashkari (Friday)		
	ECB Speakers:		Mersch (Monday); Mersch (Tuesday); Lautenschläger (Wednesday)		
Mon 24th	FRA:	08.00	Flash Markit Composite PMI (July)	56.6	56.4
	GER:	08.30	Flash Markit Composite PMI (July)	56.4	56.3
	EU-19:	09.00	Flash Markit Composite PMI (July)	56.3	56.3
			- Manufacturing / Services	57.4 / 55.4	57.2 / 55.5
	US:	14.45	Flash Markit Manufacturing PMI (July)	52.0	52.1
			- Services	54.2	54.3
	US:	15.00	Existing Home Sales (June)	+1.1% / 5.62m s.a.a.r.	+1.2% / 5.57m
Tue 25th	FRA:	07.45	INSEE Business Climate (July)	108	108
	GER:	09.00	Ifo Business Climate (July)	115.1	115.0
	UK:	11.00	CBI Industrial Orders (July)	16	
	US:	14.00	Case-Shiller House Prices (May)	+0.3% (+5.7%)	+0.4% (+5.8%)
	BEL:	14.00	NBB Leading Business Indicator (July)	-2	
	US:	15.00	Consumer Confidence (July)	118.9	115.7
Wed 26th	FRA:	07.45	Consumer Confidence (July)	108.0	108.0
	ITA:	09.00	ISTAT Business Confidence (July)	107.3	107.1
	ITA:	09.00	Consumer Confidence (July)	106.4	106.3
	UK:	09.30	GDP (Q2: First Reading)	+0.2% (+2.0%)	+0.3% (+1.7%)
	US:	15.00	New Home Sales (June)	+2.9% / 0.610m s.a.a.r.	+0.8% / 0.620m
	US:	19.00	Fed Interest Rate Announcement	1.125%	1.125%
Thurs 27th	GER:	07.00	Gfk Consumer Sentiment (July)	10.6	10.6
	EU-19:	09.00	M3 Money Supply (June)	(+5.0%)	(+5.0%)
	UK:	11.00	CBI Distributive Trades (July)	12	
	US:	13.30	Durable Goods Orders (June)	-0.8%	+3.1%
	US:	13.30	Initial Jobless Claims (w/e 22nd July)	233,00	241,000
	US:	13.30	Chicago Fed National Activity Index (June)	-0.26	
Fri 28th	UK:	00.01	Gfk Consumer Confidence (July)	-10	-11
	JPN:	00.30	CPI: National (June) / Tokyo (July)	(+0.4%) / (0.0%)	
	JPN:	00.30	Unemployment / Jobs : Applicants (June)	3.1% / 1.49	3.0% / 1.50
	FRA:	07.45	Consumer Spending (June)	+1.0%	-0.3%
	FRA:	07.45	Preliminary HICP (July)	(+0.8%)	(+0.8%)
	FRA:	07.45	GDP (Q1: First Reading)	+0.4%	+0.5%
	ESP:	08.00	GDP (Q1: First Reading)	+0.8%	+0.9%
	EU-19:	10.00	EC Business Climate (July)	1.15	1.13
	EU-19:	10.00	EC Economic Sentiment (July)	111.1	110.8
			- Industrial / Services / Consumer	4.5 / 13.4 / -1.7	4.3 / 13.2 / -1.7
	IRL:	11.00	Retail Sales (June)	+0.8% (+3.3%)	-3.0% (+7.3%)
	GER:	13.00	Preliminary HICP (July)	+0.2% (+1.5%)	+0.3% (+1.3%)
	US:	13.30	Employment Costs (Q2)	+0.8% (+2.4%)	+0.6% (+2.4%)
			- Wages & Salaries	+0.8% (+2.4%)	+0.6% (+2.4%)
	US:	16.00	GDP (Q2: First Reading)	+1.4% s.a.a.r.	+2.5%

♦ 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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