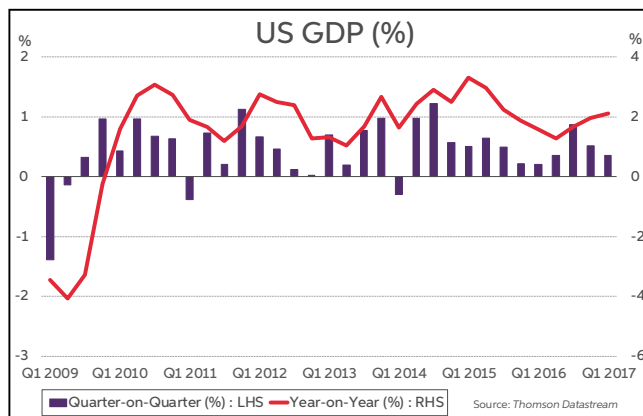


Deflated dollar

- It has been a tough summer so far for the dollar.** The softer tone to the currency that started to set in over the first half of the year has gathered further momentum over the last two months. Increasing uncertainty over the ability of the Trump administration to implement any sort of meaningful fiscal stimulus has played a key role in the wind being taken out of the dollar's sails. Meantime, soft inflation numbers, and the Fed's acknowledgement of this, have reinforced the markets less hawkish expectations of Fed policy tightening. Since the start of June, the currency has fallen in the region of 2-4% against a raft of global currencies, including the euro, sterling, as well as the CAN, AUS and NZ dollars. In level terms this is reflected in EUR/USD hitting an over two year high above \$1.17 and GBP/USD trading up near \$1.31, while the dollar index has fallen to a one-year low.
- Meanwhile, a steady flow of consensus beating macro data, reduced political risk, as well as signs that the ECB is taking gradual steps towards a more neutral policy stance, have combined to create a supportive environment for the single currency. For the dollar to regain its mojo, it will likely need both monetary and fiscal policy to play a role. However, the prospect of a near-term fiscal stimulus from the Trump administration has greatly diminished, while it could be well into next year before it becomes clear if the market is underestimating the extent of Fed tightening. **Thus, the dollar could remain on the back foot over the coming months, with the EUR/USD pair in a \$1.15-1.20 range.**
- Firmer US data in recent months, as evidenced by GDP rising by 2.6% on an annualised basis in Q2 (from 1.2%) and solid jobs growth, have not been of much support to the dollar. **In the week ahead, payrolls are forecast to show a further strong rise (+187k) in July.** The unemployment rate is anticipated to have edged down to 4.3%, a 16-year low. Despite the tightening labour market, wage growth has remained relatively subdued. Year-on-year growth in average hourly earnings is expected to edge up slightly in July, to 2.6%. **We also get some July survey indicators in the form of the ISMs.** They look set to remain consistent with solid growth.



- In the UK, the focus will be on the August edition of the BoE 'Super Thursday'.** This includes the policy decision, minutes, Inflation Report and Governor Carney press conference. **The June meeting provided something of a hawkish surprise,** with three of the eight MPC members voting for a rate hike, while the Committee noted its "reduced tolerance" for above target inflation. Subsequent comments from a number of MPC members were viewed as being somewhat hawkish. More recently, though, UK inflation has slowed (from 2.9% to 2.6% in June), while Q2 GDP confirmed that growth remained subdued in H1'17. **This has reduced market speculation of a near-term interest rate hike. The BoE will likely indicate this week that it is leaving its policy options open, given the uncertain outlook.** It will likely continue to outline the difficult trade-off that it faces in terms of the timeframe to return inflation to the 2% target and the key support that the current policy stance provides to the economy. The Inflation Report seems unlikely to contain major GDP or inflation forecast revisions. Data-wise, the July PMIs are the main UK release. They are anticipated to have held near June's weaker levels.
- In the Eurozone, Q2 GDP is the main release.** Data in the quarter suggested the economy maintained its stronger momentum. **GDP is expected to rise by 0.6% in the quarter,** matching its performance from Q1. Year-on-year growth is anticipated to rise to 2.1%, its strongest rate in over six years. Meantime, flash Eurozone HICP is predicted to have remained subdued at 1.3% in July, though the unemployment rate is forecast to have remained on its downward trajectory, moving down to an eight year low of 9.2% in June.

	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	1.1723	1.17	1.17	1.16
EUR/GBP	0.8962	0.89	0.89	0.90
EUR/JPY	130.15	130	130	130
GBP/USD	1.3080	1.31	1.31	1.29
USD/JPY	111.02	111	111	112

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	Fed Speakers:	Mester, Williams (Wednesday)		
Mon 31st	JPN: 00.50	Industrial Output (June)	-3.6%	+1.7%
	CHINA: 02.00	NBS Manufacturing / Services PMI (June)	51.7 / 54.9	
	GER: 07.00	Retail Sales (June)	+0.5% (+4.8%)	+0.2% (+2.7%)
	ITA: 09.00	Unemployment (June)	11.3%	11.3%
	UK: 09.30	BoE Mortgage Approvals (June)	65,202	65,000
	ITA: 10.00	Preliminary HICP (July)	(+1.2%)	(+1.2%)
	EU-19: 10.00	Flash HICP (July)	(+1.3%)	(+1.3%)
		- Ex-Food & Energy	(+1.2%)	(+1.1%)
	EU-19: 10.00	Unemployment (June)	9.3%	9.2%
	BEL: 14.00	GDP (Q2)	+0.6%	
	US: 15.00	Pending Homes Sales Index (June)	-0.8% / 108.5	+1.0% / 109.6
Tue 1st	CHINA: 02.45	Caixin Manufacturing PMI (July)	50.4	50.4
	AUS: 05.30	RBA Interest Rate Announcement	1.50%	1.50%
	UK: 07.00	Nationwide House Prices (July)	+1.1% (+3.1%)	-0.1% (+2.7%)
	GER: 09.00	Unemployment (July)	5.7%	5.7%
	EU-19: 09.00	Final Manufacturing PMI (August)	57.4 / 56.8 (p)	56.8
	UK: 09.30	CIPS/Markit Manufacturing PMI (July)	54.3	54.3
	EU-19: 10.00	GDP (Q1: First Reading)	+0.6% (+1.9%)	+0.6% (+2.1%)
	IRL: 11.00	Unemployment (July)	6.3%	6.2%
	US: 13.30	Personal Income / Consumption (June)	+0.4% / +0.1%	+0.4% / +0.1%
		- Core-PCE Prices	+0.1% (+1.4%)	+0.1% (+1.4%)
	US: 14.45	Final Market Manufacturing PMI (July)	52.0 / 53.2 (p)	53.2
	US: 15.00	Construction Spending (June)	0.0%	+0.3%
	US: 15.00	Manufacturing ISM (July)	57.8	55.5
	US: 20.30	Total Vehicle Sales (July)	16.51m s.a.a.r.	16.70m
Wed 2nd	UK: 09.30	CIPS/Markit Construction PMI (July)	54.8	54.0
	EU-19: 10.00	PPI (June)	-0.4% (+3.3%)	-0.1% (+2.4%)
	US: 13.15	ADP Employment (July)	158,000	190,000
	IRL: 16.30	Exchequer Balance (July)	July'16: €862m	€3.75bn
Thurs 3rd	CHINA: 02.45	Caixin Services PMI (July)	51.6	
	EU-19: 09.00	Final Markit Composite PMI (August)	56.3 / 55.8 (p)	55.8
		- Services PMI	55.4 / 55.4 (p)	55.4
	UK: 09.30	CIPS/Markit Services PMI (July)	53.4	53.5
	EU-19: 10.00	Retail Sales (June)	+0.4% (+2.6%)	+0.2% (+2.5%)
	IRL: 11.00	Live Register (July)	-4,800 / 259,200	-3,200 / 256,000
	UK: 12.00	BoE Interest Rate Announcement	0.25%	0.25%
		- Meeting Minutes & Inflation Report Published		
	UK: 12.30	BoE Press Conference		
	US: 13.30	Initial Jobless Claims (w/e 29th July)	244,000	244,000
	US: 14.45	Final Markit Services PMI (July)	54.2 / 54.2 (p)	54.2
	US: 15.00	Factory Orders (June)	-0.8%	+2.7%
	US: 15.00	Non-Manufacturing ISM (July)	57.4	57.0
		- Business Activity	60.8	
Fri 4th	GER: 07.00	Industrial Orders (June)	+1.0%	+0.5%
	US: 13.30	Non-Farm Payrolls (July)	222,000	187,000
		- Unemployment	4.4%	4.3%
		- Average Earnings	+0.2% (+2.5%)	+0.3% (+2.6%)
	US: 13.30	International Trade (June)	-\$46.5bn	-\$45.5bn

◆ 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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