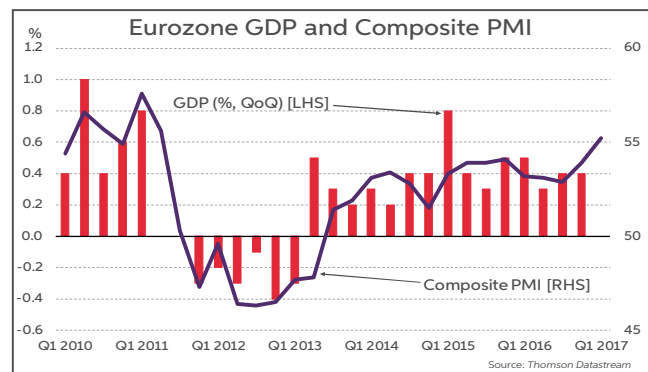


Spring in Euro's Step

■ **The euro has had a bit more of a swagger in the past week as it benefits from developments on a number of fronts.** First, better data from the Eurozone in recent months have helped underpin the currency. Second, markets have brought forward the start date for likely monetary tightening in the Eurozone in the aftermath of the more upbeat tone to last week's ECB Council meeting. Meanwhile, **the FOMC meeting this week saw the Fed leave its rate hike projections largely intact, despite some expectations that it might build in one more rate increase for 2018.** Finally, political risks have abated somewhat in the Eurozone, with pro-EU parties performing well in the Dutch elections and the pro-EU candidate Emmanuel Macron faring well in opinion polls ahead of the upcoming French Presidential election.

■ **The euro, though, remains range bound against other major currencies.** It is still within the \$1.04-1.08 and 84-88p trading bands against the dollar and sterling that it has occupied over the past four months, while it is right in the middle of its ¥118-124 range against the yen for the same period. Continuing low inflation is likely to remain a headwind for the currency and require an on-going very loose ECB policy stance. Headline inflation has risen to 2%, but various measures of core inflation remain stuck near 1%. Headline inflation is expected to ease back later in the spring as the impact of rising oil prices in 2016 starts to drop out of the annual rate. By early next year, inflation could be back at 1%, certainly if the recent weakening in oil prices persists. Meanwhile, markets have not priced in the extent of policy tightening envisaged by the Fed for 2018-19. **The euro may be looking in somewhat better shape recently, but the dollar still appears to hold the upper hand.**

■ **There is a busy calendar of March survey data in the Eurozone next week.** PMI data have pointed to a pick-up in growth in recent months, with the headline Composite index rising to 56 in February, its highest level since April 2011. **Thus, even if the PMI edges lower in March, its overall performance in Q1 should still be consistent with a somewhat firmer pace of quarterly growth,** following on from Q4's 0.4% rise.



■ Meanwhile, **the flash EC measure of Eurozone consumer confidence should remain at a very encouraging level,** suggesting a continued solid performance from the consumer sector. The Eurozone calendar also features some key national leading indicators for March, including the French INSEE business climate measure and the Belgian NBB index.

■ **In the UK, weakening retail sales have been a source of concern recently,** given the key role of consumer spending for growth. Sales declined by 0.5% in the three months to January. Leading indicators of sales for February were mixed with CBI distributive trades improving, but BRC retail sales remaining weak. Thus, if February retail sales do record an improvement, it could be somewhat modest in nature, doing little to allay fears of a UK slowdown in Q1. Indeed, increases of around 2% in both February and March would be required for retail sales growth to record a positive figure in the first quarter.

■ **Softer UK consumer spending has been largely chalked up to slowing employment and real wage growth, with the weaker sterling pushes up prices.** With that in mind, CPI inflation data for February will be closely analysed next week. So too will producer price figures, with input price inflation having risen to 20.5% in January and output inflation increasing to 3.5%. Higher producer prices will weigh on the competitiveness of UK exports.

■ **March PMI data are the main release in the US.** They have pointed to a pick-up in the pace of growth in the last couple of months, though not to the same degree as the very strong ISM surveys. Both the manufacturing and services indices are likely to have remained at solid levels in March. Next week's US calendar also includes durable goods and existing homes sales data (both February).

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2017	2017	2017
Fed Funds	0.875	0.875	1.125	1.375
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 Q2	End Q3	End Q4
		2017	2017	2017
EUR/USD	1.0738	1.05	1.04	1.03
EUR/GBP	0.8686	0.87	0.88	0.89
EUR/JPY	121.64	121	122	123
GBP/USD	1.2361	1.21	1.18	1.16
USD/JPY	113.28	115	117	119

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Haldane (Monday)		
	Fed Speakers:	Evans (Monday); George, Mester (Tuesday); Yellen (Thursday); Bullard, Evans (Friday)		
Mon 20th	JPN:	Vernal Equinox (Market Holiday)		
	GER: 07.00	PPI (February)	+0.7% (+2.4%)	
	EU-19: 10.00	Labour Cost Index - Wages (Q4)	(+1.6%)	
	US: 12.30	Chicago Fed National Activity Index (February)	-0.05	
Tue 21st	UK: 09.30	CPI (February) - Ex-Food & Energy	-0.5% (+1.8%) -1.0% (+1.6%)	
	UK: 09.30	PPI Output (February) - Input	+0.6% (+3.5%) +1.7% (+20.5%)	
	UK: 09.30	PSNB Ex-Interventions (February)	£-9.39bn	
	UK: 11.00	CBI Industrial Orders Index (March)	8	
	JPN: 23.50	Trade Balance (February) - Exports	-¥1.1tn (+1.3%)	
Wed 22nd	EU-19: 09.00	Current Account (January)	€31.0bn	
	US: 14.00	Existing Home Sales (February)	+3.3% / 5.69m s.a.a.r.	-1.9% / 5.58m
Thurs 23rd	GER: 07.00	Gfk Consumer Sentiment (April)	10	10
	FRA: 07.45	INSEE Business Climate (March)	107	
	UK: 09.30	Retail Sales (February)	-0.3% (+1.5%)	
	UK: 11.00	CBI Distributive Trades Index (March)	9	
	US: 12.30	Initial Jobless Claims (w/e 18th March)		
	US: 14.00	New Home Sales (February)	+3.7% / 0.555m s.a.a.r.	+0.7% / 0.559m
	BEL: 14.00	NBB Leading Business Indicator (March)	-1.1	
	EU-19: 15.00	Flash EC Consumer Sentiment (February)	-6.20	-6.05
Fri 24th	FRA: 08.00	Flash Markit Composite PMI (March)	55.9	
	GER: 08.30	Flash Markit Composite PMI (March)	56.1	
	EU-19: 09.00	Flash Markit Composite PMI (March) - Manufacturing / Services	56.0 55.4 / 55.5	55.8 55.3 / 55.4
	US: 12.30	Durable Goods (February)	+2.0%	+1.5%
	US: 13.45	Flash Markit Services PMI (March)	53.8	

◆ 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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