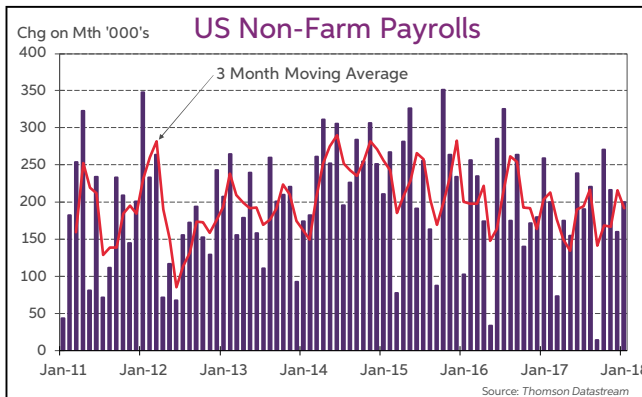


Dollar fights back

- **The dollar is fighting back after a very shaky start to the year that saw it lose considerable ground in January and early February.** The euro rose to as high as \$1.2550 in mid-February from \$1.20 at the start of 2018, but has since fallen back to \$1.22. Meanwhile, sterling is back trading below \$1.38, having risen to as high as \$1.43 in late January. **A relative upbeat assessment of the US economy this week from the new Fed Chair, Jerome Powell, was the latest development which helped the dollar.** Financial markets continue to revise upwards their expectations for the course of US interest rates during 2018, suggesting that the heavy dollar selling at the start of the year was overdone.
- Meanwhile, Eurozone inflation fell to a fourteen month low of 1.2% in February. This highlights that the ECB will be cautious and slow in terms of removing its very accommodative monetary policy, despite the marked strengthening of economic activity in the Eurozone. **While our view is that the dollar is on a long-term downward path, we have been warning that the US currency was likely to see bouts of strength this year.** With the momentum with the dollar for now, the euro could move back to the \$1.20 level in the near-term, with markets keeping a close eye on political developments in Germany and Italy this weekend.
- **The main event in the coming week will be the ECB meeting. No changes to policy are anticipated.** The ‘account’ of the last meeting in January showed that an “ample degree” of policy accommodation was still deemed to be necessary, with inflation remaining weak. In this context, any changes to the ECB’s forward guidance was seen as being “premature”. As mentioned above, Eurozone HICP inflation continued to decline in February, slowing to just 1.2%. Furthermore, **recent comments from Governing Council members have done little to suggest that we will see any major changes at this week’s meeting. Nonetheless, markets will still be on guard in case there is a change to the ECB’s easing bias.** The release of the updated staff macroeconomic projections will be of interest, though. A busy week of central bank updates also includes the BoJ, Reserve Bank of Australia and Bank of Canada meetings, though they too are expected to leave rates on hold.
- **Data-wise, the main release comes in the US, in the form of the employment report for February.** Non-farm payrolls recorded a strong 200k rise in January, with a similar result expected this week. At the same time, the unemployment rate looks set to have held at a 17-year low of just 4.1%. However, **this week’s earnings data will garner more attention than usual.** A surprise jump in wage growth to 2.9% in January coincided with the start of the equity sell-off, as markets worried about the potential for higher interest rates. However, some analysts have suggested that the rise in average wages may have partly reflect weather related distortions to the data. Thus, we could see earnings growth slow somewhat in February.
- **In the UK, the services PMI for February is the main data highlight.** It has continued to point to moderate growth in the sector in recent months and this seems unlikely to have changed too much. Meantime, the industrial output and goods trade releases will bear watching. They both surprised strongly to the downside at the end of last year and markets will be looking to see if they started 2018 on a firmer footing.
- **Finally, in the Eurozone, retail sales for January are due. The data have been volatile recently, though we could well see some recovery following on from December’s 1.1% fall.** At a national level, industrial production data from Germany and France (January) will be looked to ahead of the next week’s Eurozone aggregate figures.



| | Interest Rate Forecasts | | | |
|-------------|-------------------------|----------------|----------------|----------------|
| | Current | End Q1 2018 | End Q2 2018 | End Q3 2018 |
| Fed Funds | 1.375 | 1.625 | 1.875 | 2.125 |
| ECB Deposit | -0.40 | -0.40 | -0.40 | -0.40 |
| BoE Repo | 0.50 | 0.50 | 0.50 | 0.75 |
| 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 | 1.2190 | 1.21 | 1.23 | 1.25 |
| EUR/GBP | 0.8868 | 0.89 | 0.89 | 0.88 |
| EUR/JPY | 130.14 | 131 | 132 | 133 |
| GBP/USD | 1.3746 | 1.36 | 1.38 | 1.42 |
| USD/JPY | 106.76 | 108 | 107 | 106 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT) | Release | Previous | Forecast |
|-------------------|-----------------------|--|----------------------------|----------------------|
| This Week: | Fed Speakers: | Dudley (Tuesday); Bostic, Dudley (Wednesday); Evans (Friday) | | |
| | ECB Speakers: | | | |
| Mon 5th | CHINA: 01.45 | Caixin Services PMI (February) | 54.7 | |
| | FRA: 08.50 | Final Markit Composite PMI (February) | 59.6 / 57.8 (p) | 57.8 |
| | GER: 08.55 | Final Markit Composite PMI (February) | 59.0 / 57.4 (p) | 57.4 |
| | EU-19: 09.00 | Final Markit Composite PMI (February) | 58.8 / 57.5 (p) | 57.5 |
| | | - Services | 58.0 / 56.7 (p) | 56.7 |
| | UK: 09.30 | CIPS/Markit Services PMI (February) | 53.0 | |
| | EU-19: 09.30 | Sentix Index (March) | 31.9 | |
| | EU-19: 10.00 | Retail Sales (January) | -1.1% (+1.9%) | |
| | US: 14.45 | Final Markit Services PMI (February) | 53.3 / 55.9 (p) | 55.9 |
| | US: 15.00 | Non-Manufacturing PMI (February) | 59.9 | 59.4 |
| | | - Business Activity | 59.8 | |
| Tue 6th | UK: 00.01 | BRC Retail Sales (February) | (+0.6%) | |
| | AUS: 03.30 | RBA Interest Rate Announcement | 1.50% | 1.50% |
| | US: 15.00 | Factory Orders (January) | +1.7% | -0.1% |
| Wed 7th | JPN: 05.00 | Leading Indicators Index (January) | -0.3% / 107.4 | |
| | FRA: 07.45 | Trade Balance (January) | -€3.47bn | |
| | | - Exports | +5.8% | |
| | UK: 08.30 | Halifax House Prices (February) | -0.6% (+2.2%) | |
| | EU-19: 10.00 | GDP (Q4: Third Reading) | +0.6% (+2.7%) (p) | |
| | IRL: 11.00 | Retail Sales (January) | -0.1% (+7.2%) | +0.5% (+6.0%) |
| | US: 13.15 | ADP Employment (February) | 234,000 | 195,000 |
| | US: 13.30 | International Trade Balance (January) | -\$53.1bn | -\$54.1bn |
| | CAN: 15.00 | BoC Interest Rate Announcement | 1.25% | 1.25% |
| | US: 19.00 | Fed Beige Book Published | | |
| | JPN: 23.50 | GDP (Q4: Second Reading) | +0.1% / +0.5% s.a.a.r. (p) | |
| Thurs 8th | UK: 00.01 | RICS House Price Survey (February) | 8 | |
| | CHINA: 02.00 | Trade Balance (February) | \$20.34bn | |
| | | - Exports | (+11.4%) | |
| | JPN: 05.00 | Economy Watchers Index (February) | 49.9 | |
| | GER: 07.00 | Industrial Orders (January) | +3.8% | |
| | EU-19: 12.45 | ECB Refi Rate Announcement | 0.00% | 0.00% |
| | | - Deposit | -0.40% | -0.40% |
| | EU-19: 13.30 | ECB Press Conference | | |
| | US: 13.30 | Initial Jobless Claims (w/e 3rd March) | | |
| Fri 9th | JPN: 02.00 | BoJ Interest Rate Announcement | -0.1% - 0.0% | -0.1% - 0.0% |
| | GER: 07.00 | Industrial Output (January) | -0.6% | |
| | GER: 07.00 | Trade Balance (January) | €21.4bn | |
| | | - Exports | +0.3% | |
| | FRA: 07.45 | Industrial Output (January) | +0.5% | |
| | UK: 09.30 | Industrial Output (January) | -1.3% (0.0%) | |
| | | - Manufacturing | +0.3% (+1.4%) | |
| | UK: 09.30 | Goods Trade Balance (January) | -£13.58bn | |
| | | - Non-EU | -£5.18bn | |
| | US: 13.30 | Non-Farm Payrolls (February) | 200,000 | 190,000 |
| | | - Unemployment | 4.1% | 4.1% |
| | | - Average Hourly Earnings | +0.3% (+2.9%) | |

◆ 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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