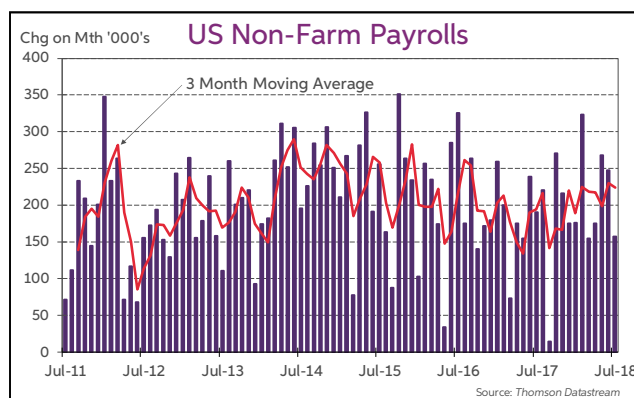


Home on the Range

- **We have seen quite a dichotomy in financial markets since early summer.** A number of large emerging markets have been characterised by a series of crises, with plunging currencies, soaring interest rates and declining stock markets, often against a fraught political backdrop. A strengthening dollar and tightening of monetary conditions are often cited as the cause of the difficulties in emerging markets. However, this misses the point. In reality, a rising dollar and higher rates expose deep problems in terms of ill-judged economic policies, excessive levels of external debt, unsustainable fiscal policies and large balance of payments deficits in many of these economies.
- **Interestingly, even though the dollar has lost ground in the past couple of weeks, the situation in some emerging economies continues to deteriorate, notably Argentina, Turkey and Venezuela.** If chaos has been the order of the day in many emerging markets, range trading has been the key feature in most developed markets since early summer. One can't deny that escalating trade tensions and increased geo-political risks, as well as the problems in emerging markets, have given rise to bouts of risk aversion and flights to quality in financial markets. Essentially though, the main bond markets, most leading stock markets indices (apart from in the US) and key exchange rates have traded in narrow ranges in recent months.
- It is probably fair to argue given the solid economic data, further monetary tightening and good corporate earnings seen over the summer, that stock markets should be higher and bond yields would have risen but for emerging markets, as well as uncertainty caused by global trade tensions and increased geo-political risks. Investors have taken to the side lines, though, as they wait to see how events pan out. **Home on the range looks the safest place to be while major storms pass to the south, as they could change direction at any time.**

- **In terms of the week ahead, the main release is the US employment report for August.** The key non-farm payrolls number is expected to show a strong 187k increase. This is somewhat below its monthly average for 2018 so far of 209k, though it is above its July figure of 157k. Meantime, with the US labour force also showing good growth in recent months, **the unemployment rate looks set to have held at 3.9%.**



- Despite the tight jobs market in the US, there has been only limited impact on wage growth. **Year-on-year growth in average hourly earnings is forecast at 2.8% in August. It has been in a narrow 2.3-2.8% range since Q3 2015.** Tightening labour market conditions could see wage growth move above this level in the months ahead. In terms of other releases due out in the US in the coming days, the ISM indices for August are expected to remain at levels consistent with on-going solid economic growth.
- **In the UK, the PMIs for August are the main release of note.** Both the services and manufacturing PMIs softened in July, after improving in Q2. Only small changes are anticipated from either index this week, suggesting the improved pace of growth seen in the UK in the second quarter may not prove to be sustained. Meanwhile, the BRC measure of UK retail sales will provide an early read on the key consumer sector in August.
- **There is a very light schedule in the Eurozone.** Retail sales figures for July are due, with a modest decline anticipated. We also get the third reading of Eurozone Q2 GDP. While no changes are expected, it will provide us with a first look at the expenditure breakdown of GDP in the quarter. At a domestic level, industrial output is forecast to have recorded some very modest improvement in both Germany and France.

	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2018	2018	2019
Fed Funds	1.875	2.125	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	0.75	0.75	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 Q3	End Q4	End Q1
		2018	2018	2019
EUR/USD	1.1638	1.15	1.16	1.17
EUR/GBP	0.8972	0.90	0.89	0.88
EUR/JPY	128.94	127	126	126
GBP/USD	1.2971	1.28	1.30	1.33
USD/JPY	110.76	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Mersch (Monday); Praet (Wednesday); Lautenschläger (Thursday)		
	Fed Speakers:	Evans (Monday); Evans (Tuesday); Williams, Bullard, Kashkari, Bostic (Wednesday); Williams (Thursday); Rosengren (Friday)		
Mon 3rd	US:	Labor Day (Market Holiday)		
	CHINA: 02.45	Caixin Manufacturing PMI (August)	50.8	50.6
	EU-19: 09.00	Final Markit Manufacturing PMI (August)	55.1 / 54.6 (p)	54.6
	UK: 09.30	CIPS/Markit Manufacturing PMI (August)	54.0	53.8
Tue 4th	UK: 00.01	BRC Retail Sales (August)	(+0.5%)	
	UK: 09.30	CIPS/Markit Construction PMI (August)	55.8	54.9
	EU-19: 10.00	PPI (July)	(+3.6%)	(+3.9%)
	IRL: 11.00	Unemployment (August)	5.9%	5.8%
	US: 14.45	Final Markit Manufacturing PMI (August)	55.3 / 54.5 (p)	54.5
	US: 15.00	Construction Spending (July)	-1.1%	+0.5%
	US: 15.00	Manufacturing ISM (August)	58.1	57.6
	IRL: 16.30	Underlying Exchequer Balance (August)	-€1.5bn	-€1.6bn
	US: 20.30	Total Vehicle Sales (August)	16.77m s.a.a.r.	16.89m
Wed 5th	CHINA: 02.45	Caixin Services PMI (August)	52.8	
	AUS: 05.30	RBA Interest Rate Announcement	1.50%	1.50%
	FRA: 08.50	Final Composite PMI (August)	54.4 / 55.1 (p)	55.1
	GER: 08.55	Final Composite PMI (August)	55.9 / 55.7 (p)	55.7
	EU-19: 09.00	Final Composite PMI (August)	54.3 / 54.4 (p)	54.4
		- Services	54.2 / 54.4 (p)	54.4
	UK: 09.30	CIPS/Markit Services PMI (August)	53.5	53.8
	EU-19: 10.00	Retail Sales (July)	+0.3% (+1.2%)	-0.2% (+1.3%)
	US: 13.30	International Trade Balance (July)	-\$46.3bn	-\$49.8bn
	CAN: 15.00	BoC Interest Rate Announcement	1.50%	1.50%
Thurs 6th	GER: 07.00	Industrial Orders (July)	-4.0%	+1.8%
	IRL: 11.00	Live Register (August)	-2,200 / 217,700	-2,700 / 215,000
	US: 13.30	Initial Jobless Claims (w/e 25th)	213,000	214,000
	US: 14.45	Final Markit Services PMI (August)	56.0 / 55.2 (p)	55.2
	US: 15.00	Factory Orders (July)	+0.7%	-0.6%
	US: 15.00	Non-Manufacturing ISM (August)	55.7	56.5
		- Business Activity	56.5	57.0
Fri 7th	JPN: 06.00	Leading Indicators Index (July)	-1.7	
	GER: 07.00	Industrial Output (July)	-0.9%	+0.2%
	GER: 07.00	Trade Balance (July)	€19.30bn	€19.50bn
		- Exports	0.0%	+0.2%
	FRA: 07.45	Trade Balance (July)	-€6.25bn	
		- Exports	+1.0%	
	FRA: 07.45	Industrial Output (July)	+0.6%	+0.2%
	UK: 08.30	Halifax House Prices (August)	+1.4% (+3.3%)	-0.2% (+3.9%)
	EU-19: 10.00	GDP (Q2: Third Reading)	+0.4% (+2.2%) (p)	+0.4% (+2.2%)
	US: 13.30	Non-Farm Payrolls (August)	157,000	187,000
		- Unemployment	3.9%	3.9%
		- Average Hourly Earnings	(+2.7%)	(+2.8%)

◆ 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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