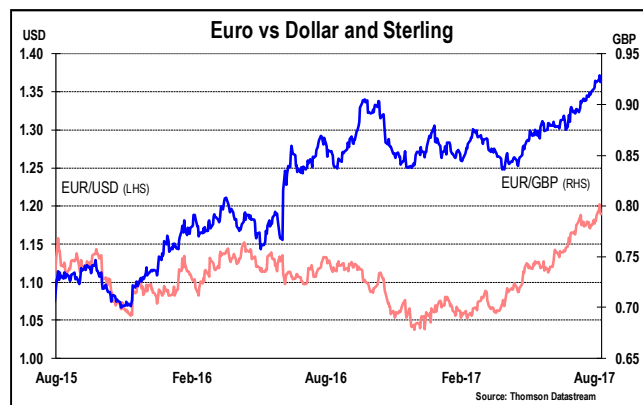


Trading Places

■ **The summer months have seen a significant change in the fortunes of the euro against sterling and the dollar.** Back at the start of May, EUR/USD was trading below the \$1.10 level and EUR/GBP was around the 84p mark. However, the victory for the pro-European Macron in the French presidential election was a key game changer for the euro. At the same time, political risks became elevated elsewhere. The UK general election outcome and all the uncertainty associated with Brexit started to impact sterling while, in the US, the lack of any progress from the Trump administration on its fiscal agenda began to weigh on the dollar. The macro environment also turned in favour of the euro, with Eurozone data continuing to surprise to the upside, in contrast to weak UK data. Monetary policy has also been a factor, with the ECB rowing back on its easing bias, while the market has turned more sceptical on Fed rate hikes and the prospects of a near term BoE hike faded. **As a result, in the past week, we have seen EUR/GBP test new 8 year highs at 93p and EUR/USD trade above \$1.20.**

■ The immediate outlook for sterling depends very much on the Brexit negotiations and with no progress likely in the short term, the currency may remain under pressure. Meanwhile, for the dollar to regain momentum, markets will want to see significant progress on fiscal policy measures from President Trump. **Therefore, against this backdrop, the euro could continue to hold the upper hand in the next couple of months.** In level terms, EUR/GBP could trade in a 90-95p range over this period and EUR/USD in a \$1.17-1.23 trading band.



■ **With the aforementioned rowing back in the ECB's easing bias, this week's Governing Council meeting will be worthy of attention.** While no policy changes are expected, the focus will centre on the meeting statement and President Draghi's press conference. At its previous meeting in July, it was clear that the ECB was allowing itself flexibility as it assesses its move away from an easing bias towards a more neutral policy stance. President Draghi did state that the ECB would be having a discussion in the autumn on QE. However, he seemed to indicate that any decision may not be forthcoming until the October meeting. Therefore the market will be looking for signs that the ECB may make an announcement on QE tapering next month.

■ **Another point of interest will be whether any reference is made to recent euro strength.** The 'account' of the July meeting showed some concern within the ECB on this issue. However, President Draghi did not address this at Jackson Hole. This month's meeting also features updated staff macro projections. **Meanwhile, in terms of data releases, the Eurozone diary over the coming days is short on highlights.** The third estimate of Q2 GDP, German and French industrial production (both July) and the final reading of the August PMI's are the main releases of note.

■ **After last week's flurry of data, this week's US release schedule is lighter by comparison, in what is a holiday (Labour Day) shortened four day week.** The ISM survey of the key non-manufacturing sector will give a timely read on how the economy performed in August. While the headline number fell to an 11-month low in July, the index can be volatile on a monthly basis and is expected to print higher in August, consistent with the view of steady growth in the economy. In terms of Fed updates, the Beige Book is due for release.

■ **In the UK, following Friday's manufacturing survey, we get further PMI data.** Market expectations are for the August headline services PMI to remain near the July 53.8 index reading, consistent with reasonable growth in the sector. Industrial output data (July) and house prices (Aug) are the only other noteworthy releases.

	Interest Rate Forecasts			
	Current	End Q3 2017	End Q4 2017	End Q1 2018
Fed Funds	1.125	1.125	1.375	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 Q3 2017	End Q4 2017	End Q1 2018
EUR/USD	1.1868	1.20	1.18	1.16
EUR/GBP	0.9162	0.93	0.91	0.89
EUR/JPY	130.93	132	132	132
GBP/USD	1.2953	1.29	1.30	1.30
USD/JPY	110.29	110	112	114

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	Fed Speakers:	Brainard, Kashkari (Tuesday); Mester, Dudley, George (Thursday); Harker (Friday)		
	ECB Speakers:	Mersch (Monday); Nouy (Wednesday);		
Mon 4th	US:	Labour Day (Market Holiday)		
	UK: 09.30	CIPS/Markit Construction PMI (August)	51.9	51.8
	EU-19: 09.30	Sentix Index (September)	27.7	27.4
	EU-19: 10.00	PPI (August)	-0.1% (+2.5%)	+0.1% (+2.2%)
	IRL: 16.30	Exchequer Balance (August)	Aug'16: €329m	€3bn
Tue 5th	UK: 00.01	BRC Retail Sales (August)	(+0.9%)	
	CHINA: 02.45	Caixin Services PMI (August)	51.5	51.4
	FRA: 08.50	Final Markit Composite PMI (August)	55.6	55.6
	GER: 08.55	Final Markit Composite PMI (August)	55.7	55.7
	EU-19: 09.00	Final Markit Composite PMI (August)	55.8	55.8
		- Services	54.9	54.9
	UK: 09.30	CIPS/Markit Services PMI (August)	53.8	53.5
	EU-19: 10.00	Retail Sales (July)	+0.5% (+3.1%)	-0.1% (+2.5%)
	IRE: 11.00	Unemployment (August)	6.4%	6.3%
	US: 15.00	Factory Orders (July)	-3.0%	-3.2%
Wed 6th	GER: 07.00	Industrial Orders (July)	+1.0%	+0.1%
	US: 13.30	International Trade (July)	-\$43.6bn	-\$44.6bn
	US: 14.45	Final Markit Services PMI (August)	56.9	56.9
	US: 15.00	Non-Manufacturing ISM (August)	53.9	55.3
		- Business Activity	55.9	
	US: 19.00	Fed Beige Book Published		
Thurs 7th	JPN: 06.00	Leading Indicators Index (July)	1.6	
	GER: 07.00	Industrial Output (July)	-1.1%	+0.6%
	FRA: 07.45	Trade Balance (July)	-€4.7bn	
		- Exports	-2.8%	
	UK: 08.30	Halifax House Prices (August)	+0.4% (+2.2%)	+0.2%
	EU-19: 10.00	GDP (Q2: Third Reading)	+0.6% (+2.2%) (p)	+0.6% (+2.2%)
	IRE: 11.00	CPI (August)	0.0% (-0.2%)	0.1% (0.1%)
	IRE: 11.00	Live Register (August)	-3,000 / 256,800	-1,800 / 255,000
	EU-19: 12.45	ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.40%	-0.40%
	EU-19: 13.30	ECB Press Conference		
	US: 13.30	Initial Jobless Claims (w/e 01 September)	236,750	240,000
Fri 8th	JPN: 00.50	GDP (Q2: Second Reading)	+1.0% / +4.0% s.a.a.r.	+1.0% / +4.0%
	GER: 07.00	Trade Balance (July)	€21.2bn	
		- Exports	-2.8%	+1.3%
	FRA: 07.45	Industrial Output (July)	-1.1%	+0.4%
	UK: 09.30	Industrial Output (July)	+0.5% (+0.3%)	+0.2% (+0.4%)
		- Manufacturing	0.0% (+0.6%)	+0.3% (+1.6%)
	UK: 09.30	Goods Trade Balance (July)	-£12.72bn	-£11.9bn
		- Non-EU	-£4.47bn	
	IRL: 11.00	Residential Property Prices (July)	+1.4% (+11.6%)	+1.5% (+10.8%)

◆ 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