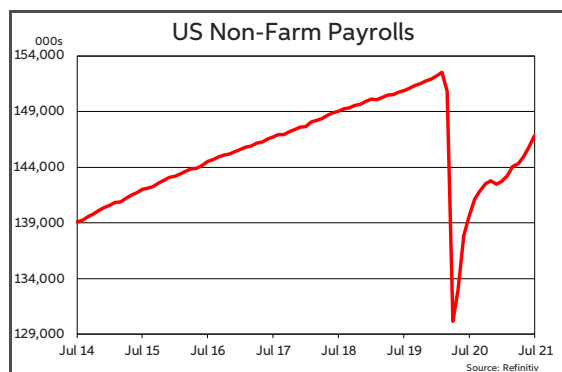


Looking for Direction

- **The action in some of the main currency pairs for much of the summer has generally been confined to fairly tight ranges.** Indeed, the EUR/USD rate has, for the most part, traded in a compact \$1.17-1.19 corridor since mid-year. Meanwhile, EUR/GBP has spent most of this timeframe in a narrow 85-87p band, with a brief period below the 85p level, to a low of 84.5p earlier this month. The confined trading ranges are against a backdrop of all the main economies experiencing a rebound in growth amid an easing of restrictions, while their respective central banks have been maintaining expansionary monetary policy settings. However, at some point, we should start to see more noteworthy action amongst the majors. A key point of focus in this regard will be monetary policy, as interest rates are a crucial factor behind forex market dynamics. As mentioned above, their stability has been an important influence to the narrow trading ranges over the past year.
- **From the perspective of the dollar, rate hikes are quite possible in the US next year.** In contrast from a euro viewpoint, Eurozone rates look set to stay on hold for a long time, and thus remain deeply negative. A widening of interest rate differentials, if it were to materialise next year, should be supportive of the dollar. In the shorter term, the dollar may be supported by the tapering of asset purchases, which is expected by the Fed later this year, given that the ECB is expected to continue with the large scale buying of bonds for the next couple of years. One potential downside for the dollar though, could be a sustained rise in US inflation relative to elsewhere. Though US rates would have to rise, high inflation is usually a forerunner for currency weakness. Another possible headwind for the dollar may be if vaccine hesitancy results in continuing high Covid-19 infection numbers and hospitalisations in the US, restraining the pace of recovery and delaying hikes in interest rates,
- **At the same time though, it is difficult to pinpoint any significant upside potential for the euro, given the outlook for Eurozone interest rates.** On top of this, there is some looming political uncertainty from elections in Germany and France, this year and next, which may weigh on the currency. Thus, the balance of risk points to some upside potential for the dollar against the euro. Elsewhere, it is not easy to foretell the next major move in sterling. Market positioning is relatively neutral. The UK economy is performing quite well suggesting the currency should remain well underpinned after its very solid performance in recent months. Further out, if rate hikes materialise in the UK next year as markets expect, it could provide a fillip for sterling, especially against currencies with zero or negative interest rates like the euro.
- **Turning to the week ahead, the main highlight will be the August US labour market report.** This will garner close attention, as some key Fed officials have highlighted that they would need to see another month of strong jobs growth before backing a decision to announce a plan to start tapering asset purchases before the end of the year. Payrolls expanded by over 1.8 million in the June-July period as hiring in the US accelerated following the re-opening of the economy and a withdrawal of the enhanced jobless supports in some states. Nonetheless, payrolls remain close to 5.7m below their pre-pandemic level. The consensus is for payrolls to rise by a further 665,000 in August. Meantime, the unemployment rate is projected to fall to 5.2% from 5.4%.



- **Elsewhere in the US, both the manufacturing and non-manufacturing ISMs are due.** In July, the non-manufacturing ISM rose to 64.1, the highest level on record since the series began in 1997. In contrast the manufacturing ISM declined for the second month running, albeit to a still elevated level of 59.5, as supply chain pressures showed no sign of abating. The forecast is for both indices to remain firmly in expansion mode but to edge lower in August. Indeed, the Conference Board measure of Consumer Confidence is set to decline for the first time since December as concerns mount regarding the strength of the economic recovery, partly due to the Delta variant.
- **There is a busy data schedule ahead in the Eurozone also.** Both the EC services and industrial sentiment indices are projected to decline in August in a sign that growth may have peaked in the region. The consensus is for retail sales to have edged 0.2% higher in July. Elsewhere, the unemployment rate is expected to have continued to inch lower in July, falling to 7.6% from 7.7%. Meanwhile, headline HICP inflation is forecast to jump to 2.8% from 2.2% due to base effects. **In the UK this week, house price data for August are the only release of note.**

	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2021	2021	2022
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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
		2021	2021	2022
EUR/USD	1.1771	1.17	1.16	1.16
EUR/GBP	0.8563	0.85	0.84	0.84
EUR/JPY	129.59	128	128	128
GBP/USD	1.3743	1.38	1.38	1.38
USD/JPY	110.10	109	110	110
Current Rates Reuters, Forecasts AIB's ERU				

ECONOMIC DIARY

Monday August 30th - Friday 3rd September

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Schnabel (Mon)		
	BoE Speakers:				
	Fed Speakers:		Bostic (Wed); Bostic (Thu)		
Mon 30th	JPN:	00:50	Retail Sales (July)	(-0.1%)	(+2.1%)
	EU-19:	10:00	EC Sentiment (August)	119.0	118.0
			- Consumer / Industrial / Services	-5.3 / 14.6 / 19.3	-5.3 / 13.5 / 18.7
	GER:	13:00	Flash HICP (August)	+0.5% (+3.1%)	+0.1% (+3.4%)
Tue 31st	JPN:	00:30	Jobs/Applicants Ratio (July)	1.13	1.12
	JPN:	00:30	Unemployment Rate (July)	2.9%	2.9%
	JPN:	00:50	Industrial Production (July)	+6.5% (+23.0%)	-2.5% (+12.1%)
	FRA:	07:45	GDP (Q2: Final Reading)	+0.9% (+18.7%)	+0.9% (+18.7%)
	FRA:	07:45	Flash HICP (August)	+0.1% (+1.5%)	+0.4% (+2.1%)
	GER:	08:55	Unemployment Rate	5.7%	5.6%
	ITA:	09:00	GDP (Q2: Final Reading)	+2.7% (+17.3%)	+2.7% (+17.3%)
	UK:	09:30	Mortgage Approvals (July)	+81,338	+79,000
	ITA:	10:00	Flash HICP (August)	-1.0% (+1.0%)	-0.2% (+2.0%)
	EU-19:	10:00	Flash HICP (August)	(+2.2%)	(+2.8%)
			- Ex-Food & Energy	(+0.9%)	(+1.4%)
	US:	14:00	Case-Shiller (June)	+1.8% (+17.0%)	+1.7% (+18.0%)
	US:	15:00	Consumer Confidence (August)	129.1	123.5
Wed 1st	IRL:	01:01	AIB Manufacturing PMI (August)	63.3	
	GER:	07:00	Retail Sales (July)	+4.2% (+6.2%)	-0.9% (+4.2%)
	UK:	07:00	Nationwide House Prices (August)	-0.5% (+10.5%)	+0.1% (+8.6%)
	ITA:	09:00	Unemployment Rate (July)	9.7%	
	EU-19:	09:00	Final Markit Manufacturing PMI (August)	61.5	61.5
	UK:	09:30	Final Markit / CIPS Manufacturing PMI (August)	60.1	60.1
	EU-19:	10:00	Unemployment Rate (July)	7.7%	7.6%
	IRL:	11:00	Unemployment Rate (August)	6.5%	6.4%
			- Covid-19 Adjusted Rate	13.5%	12.0%
	US:	14:45	Final Markit Manufacturing PMI (August)	61.2	61.2
	US:	15:00	Manufacturing ISM (August)	59.5	58.6
Thu 2nd	EU-19:	10:00	Producer Prices (July)	+1.4% (+10.2%)	+1.2% (+10.9%)
	US:	13:30	International Trade (July)	-\$75.7bn	-\$75.1bn
	US:	13:30	Initial Jobless Claims (w/e 23rd August)	+353,000	
	US:	15:00	Factory orders (July)	+1.5%	
	IRL:	16:30	Exchequer Returns (August)	August'20: -€9.5bn	-€7.5bn
Fri 3rd	IRL:	01:01	AIB Services PMI (August)	66.6	
	ITA:	08:45	Markit Composite PMI (August)	58.6	
	FRA:	08:50	Final Markit Composite PMI (August)	55.9	55.9
	GER:	08:55	Final Markit Composite PMI (August)	60.6	60.6
	EU-19:	09:00	Final Markit Composite PMI (August)	59.5	59.5
			- Final Markit Services PMI (August)	59.7	59.7
	UK:	09:30	Final Markit / CIPS Composite PMI (August)	55.3	55.4
			- Final Markit / CIPS Services PMI (August)	55.5	55.5
	EU-19:	10:00	Retail Sales (July)	+1.5% (+5.0%)	+0.2% (+5.2%)
	US:	13:30	Non-Farm Payrolls (August)	+943,000	+665,000
			- Unemployment Rate	5.4%	5.2%
			- Average Earnings	+0.4% (+4.0%)	+0.4% (+4.0%)
	US:	14:45	Final Markit Composite PMI (August)	55.4	55.4
			- Final Markit Services PMI (August)	55.2	55.2
	US:	15:00	Non-Manufacturing ISM (August)	64.1	61.3

♦ Month-on-month changes (year-on-year shown in brackets)

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