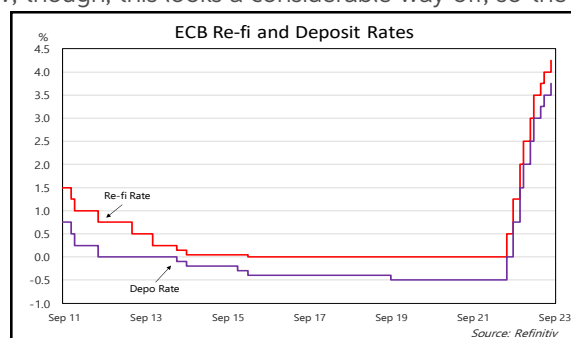


## Some Buck

- **Although the US dollar has retreated from last year's peaks, which saw it reach its highest level on a trade-weighted basis in 20 years, it has remained at very elevated levels in 2023.** The euro has moved in a \$1.048-1.128 range so far this year, while sterling has traded in a \$1.182-1.313 corridor. These are low ranges for both currencies against the dollar in the context of their trading levels for most of the last two decades. Similarly, the Australian, New Zealand and Canadian dollars are also trading at relatively weak levels against the US currency. The dollar has had the upper hand over the summer, with both the euro and sterling hitting three month lows of \$1.07 and \$1.245, respectively, in the past week. Meanwhile, both the Japanese yen and Chinese yuan have fallen to very low levels against the dollar recently.
- **The continuing strength of the dollar is very much linked to the ongoing impressive performance of the US economy and the elevated level of US interest rates.** US data have generally surprised to the upside in 2023, and the anticipated slowdown in the economy has not materialised to date. Indeed, US GDP growth this year is now likely to be broadly on a par with the 2.1% rate in 2022. Meantime, the labour market remains very tight, with the jobless rate close to fifty year lows, amid good growth in employment. In contrast, both the Eurozone and UK economies have struggled this past year, narrowly avoiding recession. While US GDP grew 2.6% year-on-year in Q2, growth in the Eurozone and UK was only circa 0.5% over the same period.
- **Against this backdrop, the Fed has raised rates by 525bps to a 5.25-5.50% range.** Markets are undecided as to whether this is the peak or if there will be one final 25bps rate hike before year end. More importantly, though, the Fed is guiding that it will keep monetary policy restrictive for an extended period of time to return inflation target. Although headline inflation has fallen back, core inflation remains well above its 2% target. As a result, US rates will need to remain higher for longer. This has seen markets scale back their expectations for US rate cuts in 2024-2025. Futures contracts now point to rates being cut to 4.4% by end 2024 and just below 4% by end 2025. In early summer, US rates were expected to fall back to 3%. This hardening of interest rate expectations has put upward pressure on US bond yields, with 10-year yields testing 15 year highs recently, above 4.3%.
- **The high US rate environment is providing considerable support for the dollar, helping it to make ground over the summer.** Further gains by the dollar, though, might be difficult to achieve as there is strong technical support for the euro in the \$1.05-1.07 range and at \$1.20-1.24 for sterling. The performance of the dollar in 2024 will likely be heavily influenced by the timing and scale of any monetary policy easing by the Fed. In particular, the dollar would likely lose ground next year should there be a narrowing of interest rate spreads between it and other currencies. Right now, though, this looks a considerable way off, so the dollar is likely to remain at elevated levels for some time yet.
- **This week, the focus will be the ECB meeting on Thursday.** Markets have pared back expectations of a 25bps rate hike on some signs of easing in inflation, and a marked loss of momentum for the already fragile Eurozone economy. Futures contracts indicate there is only about a 40% chance the ECB will opt to raise rates this week, and roughly a 67% chance it will hike rates again this year. Headline inflation has fallen from a peak of 10.6% last October to 5.3% in August, but the core rate has proven to be quite sticky, printing in a 5-5.7% range since last October. It stood at 5.3% in August. **Thus, we think the market is underestimating the chances that the ECB will deliver a final 25bps rate hike this week, bringing the deposit rate up to 4%.** Aside from the close call rate decision, the latest ECB staff projections and the post-meeting press conference will be of keen interest.
- **Data-wise, a busy UK schedule includes labour market and GDP data for July.** Conditions in the labour have softened recently, but remain tight overall, leading to continued upward momentum in average earnings. The unemployment rate edged up to 4.2% in the three-months to June, its highest level since October of last year. Meanwhile, average earnings were up 8.2% y/y in Q2, compared to 7.2% in the three-months to May. The consensus is for the unemployment rate to rise to 4.3%, with average earnings growth remaining at 8.2% y/y. In terms of GDP, major revisions to the data show the UK economy is about 1.8% larger than previously estimated. Furthermore, the economy has been quite resilient this year, albeit, growth has been muted. A 0.2% monthly fall in GDP is pencilled in for July, after a rise of 0.5% m/m in June. Elsewhere, industrial production is forecast to decline by 0.6% in July. Similarly, Eurozone industrial production is projected to contract by 0.7% in July.
- **In the US, industrial production is expected to rise by a modest 0.1% in August.** Meanwhile, retail sales, which have risen strongly since the start of Q2, are projected to increase by 0.2% in August. **However, the main focus will be on CPI inflation data.** As mentioned above, headline inflation has fallen sharply over the past year, to 3.2% in July, but the core rate remains elevated, at 4.7%. In August though, the headline rate is forecast to rise to 3.6%, while core rate is expected to ease to 4.3%. Elsewhere, the Michigan measure of consumer sentiment is set to be little changed in September, having improved somewhat in the past year.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2023	2023	2024
Fed Funds	5.375	5.375	5.625	5.625
ECB Deposit	3.75	4.00	4.00	4.00
BoE Repo	5.25	5.50	5.75	5.75
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
		2023	2023	2024
EUR/USD	1.0740	1.08	1.09	1.10
EUR/GBP	0.8584	0.86	0.87	0.87
EUR/JPY	158.28	159	159	158
GBP/USD	1.2510	1.26	1.25	1.26
USD/JPY	147.34	147	146	144

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		<b>Lagarde (Fri)</b>		
	<b>BoE Speakers:</b>		Pill (Mon); Mann (Tue)		
	<b>Fed Speakers:</b>				
<b>Mon 11th</b>	<b>ITA:</b>	09:00	Industrial Output (July)	+0.5% (-0.8%)	-0.3% (-1.5%)
<b>Tue 12th</b>	<b>UK:</b>	07:00	ILO Unemployment Rate (July)	4.2%	4.3%
	<b>UK:</b>	07:00	Employment Change (July)	-66,000	
	<b>UK:</b>	07:00	Claimant Count (August)	+29,000	
	<b>UK:</b>	07:00	Average Earnings (July)	(+8.2%)	(+8.2%)
			- Ex-Bonus	(+7.8%)	(+7.8%)
	<b>SPA:</b>	08:00	Final HICP Inflation (August)	+0.5% (+2.4%)	+0.5% (+2.4%)
	<b>GER:</b>	10:00	ZEW Economic Sentiment (September)	-12.3	-15.0
	<b>US:</b>	11:00	NFIB Small Business Optimism (August)	91.9	
<b>Wed 13th</b>	<b>UK:</b>	07:00	GDP (July)	+0.5% (+0.9%)	-0.2% (+0.4%)
			- 3m/3m	+0.2%	+0.3%
	<b>UK:</b>	07:00	Industrial Output (April)	+1.8% (+0.7%)	-0.6% (+0.5%)
			- Manufacturing Output	+2.4% (+3.1%)	-1.0% (+2.7%)
	<b>UK:</b>	07:00	Goods Trade Balance (April)	-£15.5bn	
			- Non-EU	-£2.8bn	
	<b>EU-20:</b>	10:00	Industrial Production (July)	+0.5% (-1.2%)	-0.7% (-0.4%)
	<b>US:</b>	13:30	CPI Inflation (August)	+0.2% (+3.2%)	+0.6% (+3.6%)
			- Core CPI	+0.2% (+4.7%)	+0.2% (+4.3%)
<b>Thu 14th</b>	<b>UK:</b>	00:01	RICS Housing Survey (August)	-53	-56
	<b>IRL:</b>	<b>11:00</b>	<b>Residential Property Prices (July)</b>	<b>+0.6% (+2.2%)</b>	<b>+0.1% (+1.3%)</b>
	<b>EU-20:</b>	13:15	ECB Interest Rate Announcement		
			- Deposit Rate	3.75%	4.00%
			- Re-fi Rate	4.25%	4.50%
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 4th September)	+216,000	+224,000
	<b>US:</b>	13:30	PPI Inflation (August)	+0.3% (+0.8%)	+0.4% (+0.9%)
			- Ex-Food & Energy	+0.2% (+2.7%)	+0.2% (+2.2%)
	<b>US:</b>	13:30	Retail Sales (August)	+0.7% (+3.2%)	+0.2% (+2.5%)
			- Ex-Autos	+1.0%	+0.5%
			- Control	+1.0%	
	<b>EU-20:</b>	13:45	ECB Post-Meeting Press Conference		
<b>Fri 15th</b>	<b>CHINA:</b>	03:00	Industrial Output (August)	(+3.7%)	(+4.0%)
	<b>CHINA:</b>	03:00	Retail Sales (August)	(+2.5%)	(+2.8%)
	<b>CHINA:</b>	03:00	Unemployment Rate (August)	5.3%	
	<b>FRA:</b>	07:45	Final HICP Inflation (August)	+0.0% (+5.7%)	+0.0% (+5.7%)
	<b>ITA:</b>	09:00	Final HICP (August)	+0.2% (+5.5%)	+0.2% (+5.5%)
	<b>EU-20:</b>	10:00	Total Trade Balance (July)	+€23.0bn	
			- Eurostat Trade	+€12.5bn	
	<b>US:</b>	13:30	NY Fed / Empire State Index (September)	-19.0	-10.0
	<b>US:</b>	14:15	Industrial Production (August)	+1.0% (-0.2%)	+0.1% (-0.2%)
			- Manufacturing Output	+0.5%	
			- Capacity Utilisation	79.3%	79.3%
	<b>US:</b>	15:00	Prelim. Uni. Michigan Consumer Sentiment (Sept)	69.5	69.1

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

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