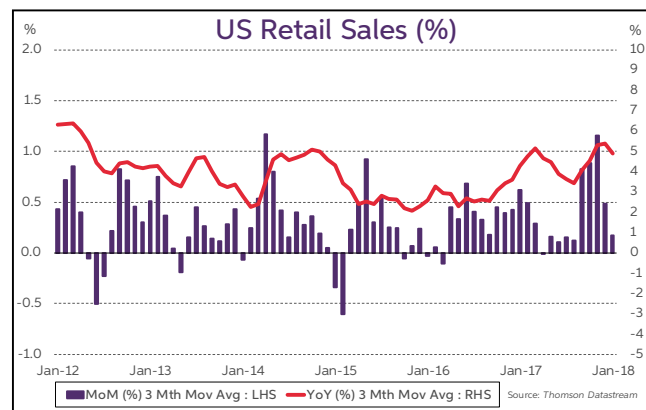


## The Long and Winding Road

- The near term outlook for the main currency markets is about as clear as mud.** Yen appreciation has been the only clear trend in forex markets year-to-date, possibly reflecting the greater risk aversion and increased volatility seen in financial markets. The EUR/USD pair has become locked into a \$1.21-1.25 range over the past two months, while the EUR/GBP rate has been confined to a narrow 87-90p range over the past six months. The euro has also been quite range bound against the Swiss Franc, trading in CHF 1.15-1.18 band since October. There has been considerable volatility within these ranges, but no clear direction in terms of forex movements.
- The imposition of tariffs by President Trump on US imports of steel and aluminium from most countries is the latest complicating factor for forex markets. Markets are unsure how to react, but if it escalates in to a tit-for-tat global trade war, we can't see it being good for stock and bond markets, or the dollar.** Our medium-term view remains that the dollar is in cyclical decline as growth picks up in countries outside the US and more central banks join the Fed in policy tightening in the next couple of years. Our base case for sterling is that the UK will secure agreement later this year on a soft Brexit with a transition period, pushing the currency higher. Thus, we expect a lower dollar and stronger sterling by end year, but it could be a long and winding road in getting there.

- Looking to the immediate future, there is a consumer theme to the US schedule this week.** Retail sales declined unexpectedly in January, after a very strong performance in Q4 2017. They are predicted to have bounced back in February. The preliminary Michigan measure of consumer sentiment looks to have remained strong in March. Meantime, **US CPI inflation has held above 2% since September, while the core (ex-food and energy) measure has risen to near 2%.** Rising inflation and the associated expectations of tighter Fed policy have been a source of market volatility recently. Both headline (2.2%) and core (1.9%) inflation rates are seen edging higher in February.



- In what is a busy week for US macro news, other data due for release include **industrial production for February, which looks set to have recorded a modest increase, after edging lower in January.** The NY and Philly Fed indices for March will be looked to for a timelier read on the manufacturing side of the economy. In terms of construction, both housing starts (February) and the NAHB Homebuilders' Index (March) will be of some interest.
- In the UK, a lack of data means that Chancellor Hammond's 'Spring Statement' on Tuesday is the main calendar event.** However, it is now of 'diminished' importance following the decision to move the main Budget announcement to the Autumn. Thus, the event will serve primarily as an update on the public finances, whilst providing updated OBR projections. GDP, productivity and the deficit have been better than the OBR's November forecasts. Thus, it may revise these up, potentially freeing up fiscal space down the line. **In the Eurozone, industrial production for January is the main release.** Unseasonably warm weather should mean energy output declined in the month, depressing the data. In terms of monetary policy, a number of ECB members, including President Draghi, are due to speak at a conference on Wednesday. Markets will be looking for further insights into last week's Governing Council meeting and the outlook for monetary policy.
- Finally, there is a very busy calendar of releases in Ireland. This includes Q4 GDP.** Year-on-year growth jumped to 10.5% in Q3 as a result of the on-going distortions from multi-nationals. Base effects from Q4 2016 should see growth decelerate sharply in Q4. Meantime, the Labour Force Survey for Q4 is due, with strong annual growth in employment (perhaps over 2%) likely. CPI, residential property prices and goods trade data will also feature.

	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	1.2295	1.21	1.23	1.25
EUR/GBP	0.8886	0.89	0.89	0.88
EUR/JPY	131.40	131	132	133
GBP/USD	1.3832	1.36	1.38	1.42
USD/JPY	106.87	108	107	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Coeuré, <b>Draghi</b> , Praet, Constancio, Villeroy de Galhau (Wednesday); Lautenschlager (Thursday)		
<b>Mon 12th</b>	<b>US:</b> 18.00	Federal Budget (February)	\$49.0bn	
	<b>JPN:</b> 23.50	Domestic Wholesale Prices (February)	(+2.7%)	(+2.6%)
<b>Tue 13th</b>	<b>US:</b> 10.00	NFIB Small Business Optimism (February)	107	
	<b>IRL:</b> <b>11.00</b>	<b>Labour Force Survey—Employment (Q4)</b>	<b>(+2.2%)</b>	<b>(+2.2%)</b>
	<b>UK:</b> 12.30	Chancellor Hammond Delivers Spring Statement		
	<b>US:</b> 12.30	CPI (February)	(+2.1%)	(+2.2%)
		- Ex-Food & Energy	(+1.8%)	(+1.9%)
	<b>JPN:</b> 23.50	Core Machinery Orders (January)	(-5.0%)	(+0.6%)
<b>Wed 14th</b>	<b>CHINA:</b> 02.00	Industrial Output (February)	(+6.2%)	(+6.1%)
	<b>GER:</b> 07.00	Final HICP (February)	(+1.2%) (p)	(+1.2%)
	<b>EU-19:</b> 10.00	Industrial Production (January)	+0.4% (+5.2%)	-0.4% (+4.7%)
	<b>IRL:</b> <b>11.00</b>	<b>Residential Property Prices (January)</b>	<b>+0.5% (+12.3%)</b>	<b>+0.5% (+12.2%)</b>
	<b>US:</b> 12.30	PPI (February)	(+2.7%)	(+2.9%)
	<b>US:</b> 12.30	Retail Sales (February)	-0.3%	+0.3%
		- Ex-Autos	0.0%	+0.3%
		- Ex-Gas, Autos & Building Materials	0.0%	+0.4%
	<b>US:</b> 14.00	Business Inventories (January)	+0.4%	+0.5%
<b>Thurs 15th</b>	<b>FRA:</b> 07.45	Final HICP (February)	(+1.3%) (p)	(+1.3%)
	<b>IRL:</b> <b>11.00</b>	<b>CPI (February)</b>	<b>-0.7% (+0.2%)</b>	<b>+0.8% (+0.4%)</b>
	<b>IRL:</b> <b>11.00</b>	<b>GDP (Q4)</b>	<b>(+10.5%)</b>	<b>(+4.0%)</b>
	<b>US:</b> 12.30	NY Fed/Empire State Index (March)	13.1	15.0
	<b>US:</b> 12.30	Import / Export Prices (February)	+1.0% / +0.8%	+0.3% / +0.4%
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 10th March)	231,000	225,000
	<b>US:</b> 13.30	Philly Fed Index (March)	25.8	24.0
	<b>US:</b> 14.00	NAHB Homebuilders Sentiment (March)	72	72
<b>Fri 16th</b>	<b>JPN:</b> 04.30	Industrial Output (January)	-6.6%	
	<b>ITA:</b> 09.00	Final HICP (February)	(+0.7%) (p)	(+0.7%)
	<b>EU-19:</b> 10.00	Final HICP (February)	(+1.2%) (p)	(+1.2%)
		- Ex-Food & Energy	(+1.2%) (p)	(+1.2%)
	<b>EU-19:</b> 10.00	Wages (Q4)	(+1.6%)	
	<b>IRL:</b> <b>11.00</b>	<b>Goods Trade Balance (January)</b>	<b>€3.9bn</b>	<b>€4.5bn</b>
	<b>US:</b> 12.30	Housing Starts (February)	+9.7% / 1.33m s.a.a.r.	-3.0% / 1.29m
		- Permits	+5.9% / 1.38m s.a.a.r.	-3.6% / 1.33m
	<b>US:</b> 13.15	Industrial Production (February)	-0.1%	+0.2%
		- Capacity Utilisation	77.5%	77.6%
	<b>US:</b> 14.00	Prelim' Michigan Consumer Sentiment (March)	99.7	99.4

◆ 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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