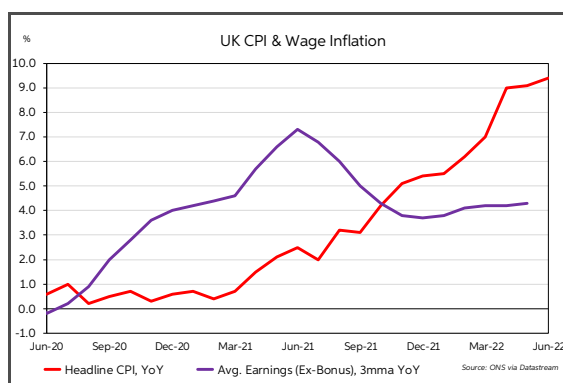


## Dollar scores highly

- The Russian invasion of Ukraine triggered a further bout of dollar strength this spring, in terms of a flight-to-quality into the world's largest reserve currency.** The fact that the Fed has also been the most aggressive of the main central banks in raising rates, with two 75bps hikes in the past two months, has further boosted the US currency. This has seen the dollar rise further over the summer to its highest level in twenty years on a trade-weighted basis. It has made significant gains against a broad range of currencies, with particularly large upward moves against the yen and sterling this year. Not surprisingly, given the Eurozone's closer trade and financial ties with Russia and in particular its reliance on imports of gas from there, the euro came under pressure following the invasion of Ukraine and the imposition of sanctions on Russia.
- The euro was trading at \$1.15 before the Russian invasion, before falling to parity in the summer, its lowest level against the dollar since 2002.** It is difficult to see this move being reversed over the balance of the year as the dollar should be supported by a continued move upwards in US interest rates to circa 3.5%, as well as relatively high US bond yields. Markets may also remain volatile, which could see more flows into traditional safe-haven currencies like the dollar. Geo-political risks are also likely to remain elevated, which should be supportive of the US currency.
- From a euro viewpoint, the fact that the ECB is set to deliver further rate hikes over the remainder of 2022 should prove beneficial for the currency.** However, the war in Ukraine is likely to continue to pose a risk for the euro, especially if there are further major interruptions or a complete cessation of gas supplies from Russia. This could lead to gas rationing and power cuts in the Eurozone this winter, with the accompanying increased risk of a recession as output declines. This would likely put renewed downward pressure on the single currency. Should parity give way, then a decline to \$0.95-0.96 could be on the cards against the dollar. The last time that the euro dropped below parity, it spent almost three years there over the period 2000-2002.
- Our base case, though, is that the ending of negative interest rates and further ECB rate hikes will help put a floor under the single currency.** Market positioning is also very long the dollar at present, which should limit its upside. Indeed, we saw the dollar lose some ground in the past week on the back of better than expected US inflation data, with the headline CPI rate dropping from 9.1% to 8.5%. This saw the euro climb to around the \$1.03 level. However, we don't think the Fed will be easily dissuaded from delivering further significant rate hikes over the balance of the year, with inflation still so elevated. Thus, while the dollar may be showing signs of peaking, we expect it to remain at a high level in the coming months. This is unlikely to change until US rates reach a peak and policy easing is seen coming on to the Fed agenda. That is not expected to happen until well into next year.
- This week, there is a busy data schedule ahead in the UK, including updates on the labour market and inflation.** Labour market conditions are tight. The consensus is for the unemployment rate to remained unchanged at 3.8% in June, while underlying average earnings are forecast to continue trending upwards to 4.5% y/y. In terms of inflation, headline CPI jumped to 9.4% y/y in June, its highest level in over 40 years. The core CPI rate edged slightly lower to 5.8% from 5.9%. Both rates are projected to rise, to 9.8% and 5.9%, respectively, in July. Elsewhere, having declined by 0.1% in June, and by 1.2% overall in Q2, retail sales are expected to move lower again at the start of Q3, with a 0.2% fall pencilled in for July. Consumer confidence is anticipated to remain at its all-time low of -42 in August.
- In the US, retail sales data will also feature.** They are projected to rise by 0.2% in July, having risen sharply by 1% in June. Meanwhile, industrial production, which has performed quite strongly so far in 2022, despite on-going supply chain issues, is forecast to rise by 0.3% in July. A slew of housing market metrics, including, housing starts, existing home sales (July) and homebuilder sentiment (August) will provide an update on the sector, which has softened in recent months. The latest Fed Meeting minutes will also garner close attention as the market looks for insights into the size of rate hike envisaged for September.
- In the Eurozone, the second estimate of Q2 GDP and the final reading of HICP inflation for July are the main releases of note.** Both are expected to be unchanged from their first prints. Eurozone employment data for Q2 are also due, together with the German ZEW investor sentiment index for August.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022			
Fed Funds	2.375	2.875	3.375	3.625
ECB Deposit	0.00	0.50	1.00	1.25
BoE Repo	1.75	2.00	2.75	2.75
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
	2022			
EUR/USD	1.0262	1.02	1.04	1.06
EUR/GBP	0.8474	0.85	0.86	0.87
EUR/JPY	137.14	135	135	135
GBP/USD	1.2108	1.20	1.21	1.22
USD/JPY	133.62	132	130	127

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Schnabel (Thurs)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	Waller, Bowman (Mon); George, Kashkari (Thurs); Barkin (Fri)		
<b>Mon 15th</b>	<b>JPN:</b> 00:50	GDP (Q2: First Reading)	-0.1% (-0.5%) s.a.a.r.	0.6% (+2.5%)
	<b>CHINA:</b> 03:00	Industrial Output (July)	(+3.9%)	(+4.6%)
	<b>CHINA:</b> 03:00	Retail Sales (July)	(+3.1%)	(+5.0%)
	<b>US:</b> 13:30	NY Fed / Empire State Index (August)	11.1	5.0
	<b>US:</b> 15:00	NAHB Homebuilder Sentiment (August)	55	55
<b>Tue 16th</b>	<b>UK:</b> 07:00	Unemployment Rate (June)	3.8%	3.8%
	<b>UK:</b> 07:00	Average Earnings (3 mnths to June) - Ex-Bonus	(+6.2%) (+4.3%)	(+4.5%) (+4.5%)
	<b>UK:</b> 07:00	Claimant Count (July)	-20,00	
	<b>EU-19:</b> 10:00	Total Trade Balance (June)	-€26.0bn	
	<b>GER:</b> 10:00	ZEW Economic Sentiment (August)	-53.8	-56.7
	<b>US:</b> 13:30	Housing Starts (July) - Building Starts	+1.559m / -2.0% +1.696m / +0.1%	+1.540m / -1.3% +1.660m / -2.1%
	<b>US:</b> 14:15	Industrial Production (July) - Manufacturing Output - Capacity Utilisation	-0.2% (+4.2%) -0.5% 80.0%	+0.3%
<b>Wed 17th</b>	<b>JPN:</b> 00:50	Machinery Orders (June)	-5.6% (+7.4%)	+1.3% (+7.5%)
	<b>JPN:</b> 00:50	Trade Balance (July) - Exports	-¥1,383bn (+19.4%)	-¥1,405bn (+18.2%)
	<b>UK:</b> 07:00	CPI (July) - Core CPI	+0.8% (+9.4%) +0.4% (+5.8%)	+0.4% (+9.8%) +0.2% (+5.9%)
	<b>UK:</b> 07:00	PPI Output Prices (July) - Input Prices	+1.4% (+16.5%) +% (+%)	
	<b>EU-19:</b> 10:00	GDP (Q2: Second Reading)	+0.7% (+4.0%)	+0.7% (+4.0%)
	<b>EU-19:</b> 10:00	Employment (Q2: First Reading)	+0.6% (+2.9%)	+0.4% (+2.5%)
	<b>US:</b> 13:30	Retail Sales (July) - Ex-Autos - Control	+1.0% (+8.4%) +1.0% +0.8%	+0.2% 0.0% +0.6%
	<b>US:</b> 19:00	Fed Meeting Minutes (27th-28th July)		
<b>Thu 18th</b>	<b>EU-19:</b> 10:00	Final HICP (July) - Ex-Food & Energy	+0.8% (+8.9%) +0.4% (+5.0%)	+0.8% (+8.9%) +0.4% (+5.0%)
	<b>US:</b> 13:30	Initial Jobless Claims (w/e 8th August)	+262,000	+265,000
	<b>US:</b> 13:30	Philly Fed Business Index (August)	-12.3	-5.0
	<b>US:</b> 15:00	Existing Home Sales (July)	+5.12m / (-5.4%)	+4.90m
<b>Fri 19th</b>	<b>UK:</b> 00:01	Gfk Consumer Confidence (August)	-41	-42
	<b>JPN:</b> 00:30	CPI (July) - Ex-Food & Energy	+0.0% (+2.4%) +0.2% (+1.0%)	(+2.4%)
	<b>GER:</b> 07:00	Producer Prices (July)	+0.6% (+32.7%)	+0.5% (+31.5%)
	<b>UK:</b> 07:00	Retails Sales (July) - Ex-Fuel	-0.1% (-5.8%) +0.4% (-5.9%)	-0.2% (-3.3%) -0.2% (-2.8%)

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