

KEY ISSUES

- **Monetary Policy:** The UK MPC is expected to cut rates by 0.25% at this week's meeting. However, the ECB and RBA are set to keep rates on hold.
- **Forex Markets:** With the initial excitement over the China's revaluation dying away, the main driving force for forex markets has reverted to interest rate expectations, leaving the dollar with the upper hand.
- **Fixed Income Markets:** Treasuries will be watching US data, notably Friday's employment report. The ISM surveys also feature as do PMI surveys in the eurozone and UK.

KEY POINTS TO WATCH

- Friday's employment report (see below) will be the highlight of the US economic calendar. Ahead of this, Treasuries will focus on the ISM manufacturing and services surveys as well as auto sales. Overall, the data may put pressure on the bond market.
- Treasuries will also be following the quarterly refunding announcement which could well signal the return of the long bond next year
- Meanwhile, the eurozone manufacturing PMI surveys are likely to reflect the more positive sentiment seen in other recent business survey. Similarly, a modest pick up is anticipated in the services surveys. The ECB meeting should provide little excitement with no change in rates and no press conference scheduled.
- The main focus in the UK will be on Thursday's MPC meeting with a 0.25% cut in rates widely expected. In terms of economic data, surveys are also to the fore, with the CBI distributive trades as well as the CIPS/PMI surveys. Industrial production data also feature.
- Markets have discounted a UK rate cut, which should limit its impact on sterling. Meanwhile, interest rate prospects continue to be dollar supportive. Markets will also continue to monitor the yuan/dollar exchange rate for any hints of a further policy move.

Interest Rate Forecasts

	Current	End Q3 2005	End Q4 2005
Fed Funds	3.0	3.5	3.75
ECB Refi	2.0	2.0	2.0
BoE Repo	4.75	4.5	4.25
BoJ ODR	0.1	0.1	0.1

Key Exchange Rates

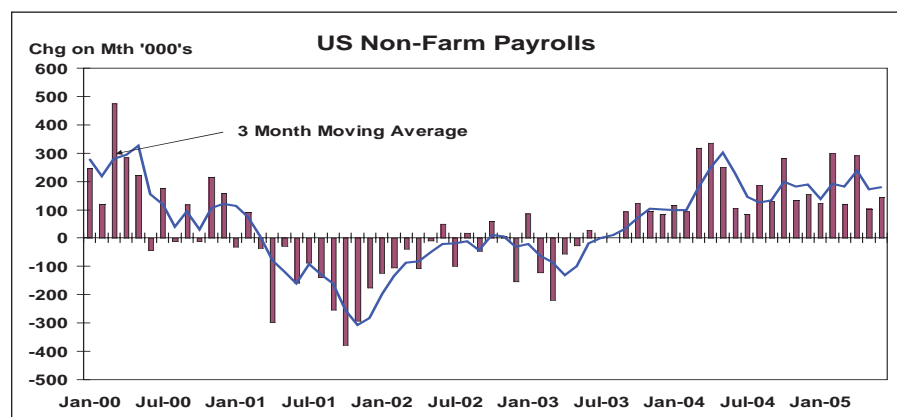
	Current	Change on Week (%)	2005 to Date (%)
US\$/EUR	1.2135	0.09	-10.90
STG/EUR	0.6901	-0.79	-2.23
YEN/EUR	136.07	1.19	-2.65
US\$/STG	1.7587	0.85	-9.00
YEN/US\$	112.10	1.09	9.40

Exchange Rate Forecasts

	Current	End Q3 2005	End Q4 2005
US\$/EUR	1.2135	1.20	1.23
STG/EUR	0.6901	0.70	0.69
YEN/EUR	136.07	134	133
US\$/STG	1.7587	1.73	1.77
YEN/US\$	112.10	112	108

Chart Of The Week: US Non-Farm Payrolls

Non-farm payrolls rose by a solid 146,000 in June. Expectations are for an even more impressive number in July, with an increase of 180,000 forecast. The jobless rate, meanwhile, is expected to maintain the 5.0% level it fell to last month.





ECONOMIC DIARY

Monday 1st August - Friday 5th August 2005



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<i>Date</i>	<i>UK & Irish Time (GMT +1 hour)</i>	<i>Release</i>	<i>Previous</i> ◆	<i>Forecast</i> ◆
Mon 1st:	IRL:	Bank Holiday		
	GER: 08.55	PMI Manufacturing (July)	49.8	50.4
	EU-12: 09.00	PMI Manufacturing (July)	49.9	50.5
	UK: 09.30	CIPS Manufacturing Survey (July)	49.6	50.0
	US: 15.00	ISM (Manufacturing) (July)	53.8	54.0
	US: 15.00	Construction Spending (July)	-0.9%	+0.5%
Tues 2nd:	AUS:	RBA Board Meeting		
	UK:	Auction: £3bn 4% 2009 Gilt		
	JAP:	Auction: 10 Year JGBs		
	EU-12: 10.00	PPI (June)	-0.2% (+3.5%)	+0.4% (+3.9%)
	EU-12: 10.00	Unemployment Rate (June)	8.8%	8.8%
	UK: 11.00	CBI Distributive Trades Balance (July)	-19	-17
	US: 13.30	Personal Income (June)	+0.2%	+0.4%
		- Expenditure	+0.0%	+0.8%
		- Core PCE	+0.2%	+0.1%
	US: 15.00	Factory Orders (June)	+2.9%	+1.0%
	US:	Domestic Auto Sales (July)	14.1m s.a.a.r.	14.4m s.a.a.r
Wed 3rd:	US:	Quarterly Refunding Announcement		
	EU-12: 09.00	PMI Services (July)	53.1	53.3
	UK: 09.30	CIPS Services Survey (July)	55.8	55.4
	EU-12: 10.00	Retail Sales (June)	+1.1% (+2.0%)	-0.1% (+0.6%)
	US: 15.00	ISM (non-Mfg) (July)	62.2	61.0
	IRL: 16.30	Exchequer Balance (July)	July 04: +€255m	-€150m
Thurs 4th:	GER: 11.00	Manufacturing Orders (June)	+2.7% (+1.3%)	+0.4%
	UK: 12.00	MPC Interest Rate Announcement		
	EU-12: 12.45	ECB Interest Rate Announcement		
	US: 13.30	Initial Jobless Claims (w/e 30th July)	310,000	
Fri 5th:	JAP: 06.00	Leading Index (June)	36.4	
	SP: 08.00	Industrial Production (June)	+6.4% (+0.6%)	
	UK: 09.30	Industrial Production (June)	+0.1% (-1.9%)	-0.1% (-2.3%)
		- Manufacturing Output	+0.0% (-1.7%)	+0.1% (-1.6%)
	GER: 11.00	Industrial Production (June)	-0.2%	+0.3%
	US: 13.30	Non Farm Payrolls (July)	+146,000	+180,000
		- Average Hourly Earnings	+0.2%	+0.2%
		- Unemployment Rate	5.0%	5.0%
	US: 20.00	Consumer Credit (June)	-\$3.0bn	+\$6.0bn

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