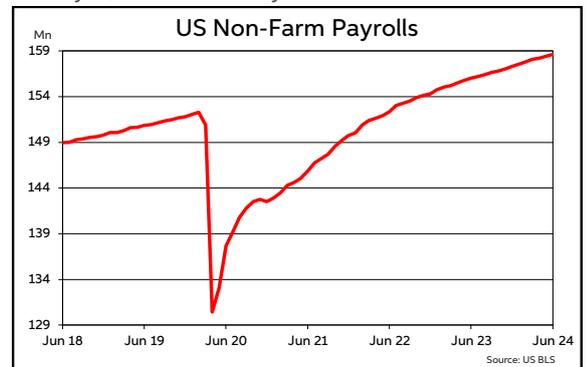


No summer vibe to markets yet

- **Despite being in the midst of the summer holiday season, political events, macro data surprises, central bank commentary and global trade tensions** have meant that the normal lull that tends to set into markets around this time of year, has been absent so far. On the political front, investors have been digesting the outcome/implications of elections in France and the UK as well as getting their heads around the raft of developments in the US Presidential campaign.
- **Data-wise, it has been noticeable over recent weeks, that despite the US Q2 GDP number printing ahead of forecasts, the majority of US data have tended to disappoint versus expectations.** There were downward revisions in the order of 110,000 to the April-May payroll numbers, while private payrolls in June were below consensus, and the unemployment rate printed at a higher than forecast 4.1%. Elsewhere, the non-manufacturing ISM survey for June dropped to a 4-year low. Meanwhile, both headline and core CPI inflation for June registered lower than expected readings and provides evidence that price pressures are easing in the US economy. Indeed, Fed Chair Powell commented during the month that it appears the economy is “getting back on a disinflationary path”. From a Eurozone viewpoint, the macro indicators released in July have tended to surprise to the downside of expectations, which has been the trend for much of the last 12 months. In contrast, UK macro data have been exceeding expectations and are consistent with some positive momentum for the UK economy.
- **Against this macro backdrop, US rate expectations have softened compared to where they started the month.** The market is now expecting the first rate cut from the Fed by September and is anticipating at least 50bps of easing by year end. The combination of weaker macro data and the softening in rate expectations has created a more challenging backdrop for the dollar over recent weeks. At the same time, better than expected UK macro news and the potential for a period of political stability, have been supportive of sterling. In level terms, EUR/USD rose to a high of \$1.0947 in mid-July. Meanwhile, GBP/USD registered a year-to-date high at \$1.3044 mid-month, while EUR/GBP edged back nearer to 84p. However, some risk aversion/safe haven demand linked to US/China trade tensions has provided support to the dollar over the last week or so. EUR/USD has been unable to sustain the move above the \$1.09 threshold and GBP/USD is back below \$1.29.
- **However, the most notable mover among the FX majors has been the Japanese yen. It spent the early part of the month very much on the defensive, as market rate expectations worked against the currency.** This saw USD/JPY reach 36-year highs just below the ¥162 threshold. However, since the apparent FX intervention from Japanese authorities on July 11th, combined with growing expectations of some BoJ policy tightening at its upcoming meeting, the yen has gained around 6% on the exchanges. In short, it has been an eventful few weeks on the currency front, and it’s not over yet, with some key events and data due over the coming days.
- **Indeed, this week sees a number of important central bank meetings, including for the Fed, BoE and BoJ.** Despite the aforementioned softening in US market rate expectations, current pricing indicates that investors do not anticipate any changes to policy this week. Therefore, the meeting statement and the press conference will garner close attention, with market participants looking for guidance on the future path of policy. **Meantime, markets see around a 50% chance that the BoE will cut rates by 25bps this week.** At the last two BoE meetings, the MPC has voted 7:2 in favour of leaving rates on hold, with the two dissenters preferring to cut rates. However, the wording of the meeting statement in June noted that the decision to hold was “finely balanced”, suggesting that the centre ground within the MPC is shifting in favour of a rate cut sooner rather than later. Recent data though have shown that services inflation remains very elevated, at 5.7%, and earnings growth is also quite strong, meaning that the decision this week will be a close call. Either way, the updated Monetary Policy Report and the press conference will be closely followed. In terms of the BoJ, there has been growing speculation that the central bank may decide to hike rates by 15bps to 0.25%.
- **On the data front, the US labour market report for July is due.** As referenced above, there have been some signs of softening in the labour market in recent months, with both payrolls and the unemployment rate missing the consensus. In July, payrolls are forecast to rise by 175k (down from 206k in June), while the jobless rate is expected to stay at 4.1%. Meanwhile, average earnings are projected to decline to 3.7% from 3.9%. Elsewhere in the US, the manufacturing ISM is set to improve slightly but remain in contraction territory in July. **In the Eurozone, the flash reading of HICP inflation for July will be released.** Little progress back towards the 2% target was made in Q2, but the headline and core rates are expected to edge down to 2.4% from 2.8%, respectively. Services inflation will also be very much in focus. Meantime, the first reading of Q2 GDP will feature. A 0.2% q/q increase is pencilled in. Timelier updates, in terms of the EC sentiment indices for July are forecast to deteriorate marginally.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
Fed Funds	5.375	5.125	4.875	4.625
ECB Deposit	3.75	3.50	3.25	3.00
BoE Repo	5.25	5.00	4.75	4.50
BoJ OCR	0.10	0.25	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2024	2024	2025
EUR/USD	1.0861	1.10	1.11	1.12
EUR/GBP	0.8447	0.87	0.87	0.88
EUR/JPY	166.66	171	170	168
GBP/USD	1.2855	1.26	1.28	1.28
USD/JPY	153.45	155	153	151

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:			
	BoE Speakers:	Pill (Thu); Pill (Fri)		
	Fed Speakers:			
Mon 29th	UK:	09:30 Mortgage Approvals (June)	59,991	60,400
	UK:	11:00 CBI Distributive Trades (July)	-24.0	
Tue 30th	JPN:	00:30 Jobs/Applicants Ratio (June)	1.24	1.24
	JPN:	00:30 Unemployment Rate (June)	2.6%	2.6%
	FRA:	06:30 GDP (Q2: Preliminary Reading)	+0.2% (+1.3%)	+0.2% (+%)
	SPA:	08:00 Flash HICP Inflation (July)	+0.4% (+3.6%)	-0.3% (+3.3%)
	SPA:	09:00 GDP (Q2: Flash Reading)	+0.2% (-0.2%)	
	GER:	09:00 GDP (Q2: Flash Reading)	+0.2% (-0.2%)	+0.1% (+0.8%)
	ITA:	09:00 GDP (Q2: Preliminary Reading)	+0.3% (+0.7%)	+0.2% (+0.6%)
	EU-20:	10:00 GDP (Q2: Flash Reading)	+0.3% (+0.4%)	+0.2% (+0.6%)
	EU-20:	10:00 EC Economic Sentiment (July)	95.9	95.4
	EU-20:	10:00 EC Business Climate (July)	-0.46	
		- Consumer / Industrial / Services	-13.0 / -10.1 / 6.5	-13.0 / -10.5 / 6.4
	GER:	13:00 Flash HICP Inflation (July)	+0.2% (+2.5%)	+0.2% (+2.4%)
	US:	14:00 Case-Shiller House Prices (May)	+0.4% (+7.2%)	
	US:	15:00 Conference Board Consumer Confidence (July)	100.4	99.6
	US:	15:00 JOLTS Job Openings (June)	+8.14m	+8.00m
Wed 31st	JPN:	Bank of Japan Interest rate Announcement	0.10%	0.25%
	JPN:	00:50 Industrial Output (June)	+3.6% (+0.3%)	-4.8% (-5.3%)
	JPN:	00:50 Retail Sales (June)	(+3.0%)	(+3.2%)
	FRA:	07:45 Flash HICP Inflation (July)	+0.2% (+2.5%)	+0.3% (+2.7%)
	GER:	08:55 Unemployment Rate (July)	6.0%	6.0%
	ITA:	10:00 Flash HICP Inflation (July)	+0.2% (+0.9%)	-1.1% (+1.2%)
	EU-20:	10:00 Flash HICP Inflation (July)	+0.1% (+2.5%)	-0.2% (+2.4%)
		- Ex-Food & Energy	+0.4% (+2.8%)	-0.2% (+2.7%)
		- Ex-Food, Energy, Alcohol & Tobacco	+0.4% (+2.9%)	-0.2% (+2.8%)
	IRL:	11:00 Unemployment rate (July)	4.2%	4.2%
	US:	19:00 Fed FOMC Interest Rate Announcement		
		- Fed Funds Target Range	5.25-5.50%	5.25-5.50%
	US:	19:30 Fed FOMC Post-Meeting Press Conference		
Thu 1st	IRL:	01:01 AIB Manufacturing PMI (July)	47.4	
	EU-20:	09:00 Final HCOB Manufacturing PMI (July)	45.6	45.6
	UK:	10:00 Final S&P Manufacturing PMI (July)	51.8	51.8
	EU-20:	10:00 Unemployment Rate (June)	6.4%	6.4%
	UK:	12:00 BoE Interest Rate Announcement		
		- Bank Rate	5.25%	5.00%
	UK:	12:30 Monetary Policy Report Press Conference		
	US:	13:30 Initial Jobless Claims (w/e 22nd July)	+235,000	
	US:	14:45 Final S&P Manufacturing PMI (July)	49.5	49.5
	US:	15:00 Manufacturing ISM (July)	48.5	48.8
Fri 2nd	FRA:	07:45 Industrial Output (June)	-2.1% (-3.1%)	+0.9% (-1.2%)
	ITA:	09:00 Industrial Output (June)	+0.5% (-3.3%)	
	US:	13:30 Non-Farm Payrolls (July)	+206,000	+175,000
		- Unemployment Rate	4.1%	4.1%
		- Average Earnings	+0.3% (+3.9%)	+0.3% (+3.7%)

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

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