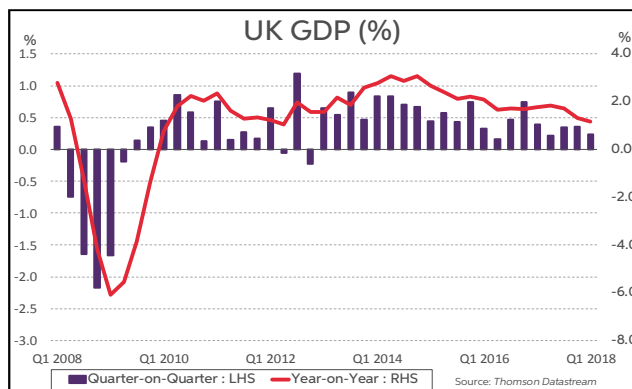


## Summer doldrums

- Markets appear directionless at present, with all the signs that trading has entered the summer doldrums.** This comes after a first half of the year which was characterised by a pick-up in volatility and a return of risk aversion in markets. It is unlikely that traders and investors will shake off their cautious mood over the rest of the summer. Nonetheless, there are a number of observations that can be made about markets. Firstly, as we had expected, the \$1.15-1.16 level has provided strong support for the euro against the resurgent dollar. The US currency looks to be well underpinned, but making further progress against the euro is likely to prove difficult.
- Secondly, we are struck by the extent of the recent rally in Euribor futures and Eurozone bond markets.** The pendulum may have swung too far. The ECB seems likely to start raising rates from autumn 2019. Markets look for rates to have risen by circa 20bps by end 2019, which seems reasonable. However, futures markets are looking for rates to rise by just 35bps in each of the subsequent two years, which seems rather modest, especially if the economy continues to grow at a solid pace. Ten year bund yields have fallen to the bottom of the range they have occupied over the past year and would appear to have more upside than downside potential.
- Thirdly, the dichotomy between the Fed and the market on the future trajectory of US rates remains very wide.** The Fed sees the funds rate getting to 3.4% by end 2020, while the market sees rates only getting to around 2.65% by then. The divergence is largely in relation to 2019 and 2020. After two further rate hikes this year, the market sees just one more rate rise in 2019 and then the Fed is done. The Fed, though, is projecting three further rate hikes next year and one further rate increase in 2020. Ten year Treasury yields have fallen by 30bps in the past two months and are vulnerable if the market has to revise up its projected path for US rates. As ever, the data will decide. We would note that the US economy appears to have a lot of momentum at present.
- In terms of the week ahead, though, many of the main data releases come in the UK.** These include the first publication of the ONS's new monthly estimate of GDP. The figures will cover the three months to May, while the ONS will also release a back series for the data. The new indicator may show the economy flatlined in the February to April period, before improving somewhat in the three months to May.
- A busy UK schedule also includes industrial output for May.** Output fell by 0.8% in April, with the main manufacturing component recording a 1.2% decline, its largest since October 2012. Output is forecast to have risen by 0.5% in May. Previous weak output data have partly reflected softer demand for UK exports. **The goods trade deficit widened to over £14bn in April, its second largest on record. It is expected to have remained very large in May.** In terms of timelier updates, BRC retail sales for June will provide an early guide as to whether the strong rebound in the official sales data seen in April and May continued in early June.
- In the US, the CPI for June is the main release.** Both headline and core inflation have held above 2% in recent months, and they are forecast to edge higher to 2.9% and 2.3%, respectively. Higher inflation could see markets adopt a more hawkish market view of the outlook for Fed policy. Data in recent weeks showed that its preferred measure of price pressures, core-PCE prices, rose to its 2% target rate in May.
- May industrial production data feature in the Eurozone.** Output fell by c.1% in April, largely due to a sharp 5% fall in energy output, as temperatures rose to more normal levels. Production is anticipated to have risen by 0.6% in May. Meantime, **an address by ECB President Draghi to the EU Parliament on Monday will bear close watching.**



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2018	2018	2019
Fed Funds	1.875	2.125	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	0.75	0.75	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 Q3	End Q4	End Q1
		2018	2018	2019
EUR/USD	1.1754	1.17	1.19	1.21
EUR/GBP	0.8858	0.88	0.87	0.86
EUR/JPY	129.78	129	129	129
GBP/USD	1.3267	1.33	1.37	1.41
USD/JPY	110.42	110	108	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	<b>Draghi</b> (Monday); Praet, Mersch, <b>Draghi</b> (Wednesday)		
	<b>Fed Speakers:</b>	Kashkari (Monday); Williams (Wednesday); Kashkari, Bostic (Friday)		
	<b>BoE Speakers:</b>	<b>Carney</b> (Wednesday); Cunliffe (Friday)		
<b>Mon 9th</b>	<b>JPN:</b> 06.00	Economy Watchers Poll (June)	47.1	
	<b>GER:</b> 07.00	Trade Balance (May) - Exports	€19.4bn -0.3%	€20.0bn +0.8%
	<b>EU-19:</b> 09.30	Sentix Index (July)	9.3	8.1
<b>Tue 10th</b>	<b>UK:</b> 00.01	BRC Retail Sales (June)	(+2.8%)	
	<b>FRA:</b> 07.45	Industrial Output (May)	-0.5%	+0.6%
	<b>GER:</b> 09.00	Industrial Output (May)	-1.2%	+0.8%
	<b>UK:</b> 09.30	Industrial Output (May) - Manufacturing	-0.8% (+1.8%) -1.4% (+1.4%)	+0.5% (+1.9%) +0.7% (+2.0%)
	<b>UK:</b> 09.30	Monthly GDP Estimate (3 Months to May)	N/A	+0.2%
	<b>UK:</b> 09.30	Goods Trade balance (May) - Non-EU	-\$14.04bn -\$5.37bn	-\$12.00bn -\$3.60bn
	<b>GER:</b> 10.00	ZEW Economic Sentiment (July)	-16.1	-18.2
	<b>US:</b> 11.00	NFIB Small Business Optimism (June)	107.8	
<b>Wed 11th</b>	<b>JPN:</b> 00.50	Domestic Wholesale Prices (June)	(+2.7%)	(+2.8%)
	<b>JPN:</b> 00.50	Core Machinery Orders (May)	(+9.6%)	(+8.6%)
	<b>US:</b> 13.30	PPI (June)	(+3.1%)	(+3.2%)
<b>Thurs 12th</b>	<b>UK:</b> 00.01	RICS House Price Survey (June)	-3	-2
	<b>GER:</b> 07.00	Final HICP (June)	(+2.1%) (p)	(+2.1%)
	<b>FRA:</b> 07.45	Final HICP (June)	(+2.4%) (p)	(+2.4%)
	<b>EU-19:</b> 10.00	Industrial Production (May)	-0.9% (+1.7%)	+1.1% (+2.2%)
	<b>IRL:</b> 11.00	<b>CPI (June)</b>	<b>+0.6% (+0.4%)</b>	<b>+0.5% (+0.8%)</b>
	<b>US:</b> 13.30	CPI (June) - Ex-Food & Energy	(+2.8%) (+2.2%)	(+2.9%) (+2.3%)
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 7th July)	231,000	230,000
	<b>US:</b> 19.00	Federal Budget (June)	-\$147.0bn	
<b>Fri 13th</b>	<b>CHINA:</b> 02.00	Trade Balance (June) - Exports	\$24.92bn (+12.6%)	-\$27.50bn (+10.2%)
	<b>US:</b> 13.30	Import / Export Prices (June)	+0.6% / +0.6%	+0.1% / +0.3%
	<b>US:</b> 15.00	Prelim' Michigan Consumer Sentiment (July)	98.2	98.2

◆ 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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