

## A Pre-Cautious Tale

- Monetary easing has come very much back on to central banks radars. We have seen rates cut in Australia and India in the past week, while there have been dovish policy soundings from the Federal Reserve and ECB.** US markets are pricing in close to 100bps of Fed easing over the next year, starting this summer. Rate hike expectations have evaporated in Europe and markets are now beginning to look for a small rate cut from the ECB and Bank of England. Expectations of more accommodative monetary policies have seen strong gains by bond markets. Ten year US Treasury yields have fallen by 120bps since last autumn, while ten year bund yields have declined by over 80bps to record lows of around -0.25%. Stock markets have also been buoyed, with US and European markets up by around 10% this year.
  - The strong rally by both bond and stock markets may seem odd, but it is because markets expect central banks to act pre-emptively to stave off the risk of a sharp slowdown in activity.** The softening in global growth in the past year has been largely confined to a marked slowdown in international trade and an associated weakening of activity in manufacturing. The escalation in trade tensions in the past month and a further deterioration in business surveys has put central banks on high alert, as they are concerned that the weakness in activity could spread to other parts of the economy and labour markets.
  - With interest rates very low, central bankers may feel that they need to move quickly to shore up growth as they have very little in the locker to counteract a sharp downturn in activity.** Very low inflation allows central banks something of a free bet in terms of policy easing. They still face a bit of a dilemma, though, as risks to global growth, such as trade tensions, could get resolved very quickly. Markets expect that central banks, especially the Fed, will err on the side of caution and ease policy. The strength of equities and futures contracts pointing to rate hikes further down the road, suggests that markets believe a steep downturn in activity will be avoided. If this indeed proves to be the case, then the rally in bond markets looks overdone, especially in Europe, where any policy easing is likely to be very limited.
  - Turning to the week ahead, a busy UK macro schedule includes the GDP estimate for the three months to April.** The impact of Brexit related stockpiling, which helped to boost activity in the opening quarter of the year, looks to have eased in April. Growth is forecast at 0.4%, slightly down on Q1's 0.5% rate. Meantime, industrial production data for April are expected to show a 0.7% fall in output, as firms went ahead with their pre-planned Brexit production stoppages. More positively, the goods trade deficit may have narrowed in April.
- The chart displays UK GDP data from March 2015 to March 2019. The left Y-axis (LHS) represents the 3 Month/3 Month GDP (%) in purple bars, ranging from -0.2 to 1.2. The right Y-axis (RHS) represents the 3 Month/3 Month YoY (%) in a red line, ranging from 0.0 to 3.5. The X-axis shows quarterly periods from Mar-15 to Mar-19. The YoY growth rate shows a significant peak in early 2017 (around 3.0%) followed by a sharp decline and subsequent recovery. The quarterly GDP growth rate shows a notable dip in early 2019, reaching approximately -0.1%.
- Meantime, the labour market bulletin, also covering the three month period to April, is the other major release in the UK this week.** Jobs growth is estimated to have edged down to 1.0% in year-on-year terms, though the employment rate ought to remain close to the record high hit in Q1. Meanwhile, the unemployment rate is forecast at 3.8%, unchanged from the previous period. Overall, the tight labour market conditions should see underlying wage inflation hold above 3%. **On the political front, the Conservative Party leadership contest also gets underway this week.** The first round of voting begins on Thursday.
  - In the US, there are a number of important releases.** It is envisaged that somewhat lower energy prices could have seen CPI inflation moderate to 1.9% in May, from 2.0%. At the same time, the consensus is that the core rate held at 2.1%. Meanwhile, the expectation is that stronger car sales will contribute to a 0.6% rise in headline retail sales in May. A solid 0.4% increase is projected for the closely watched 'control' measure (ex-gas, autos & building materials). In a timelier consumer update, the 'University of Michigan' measure of consumer sentiment is expected to show that confidence dipped in June, while remaining buoyant. Meantime, on the output side of the economy, it is anticipated that industrial production rose by just 0.2% in May, reflecting continuing weakness in the manufacturing sector.
  - Elsewhere, the calendar in the Eurozone is light this week.** Indeed, the only data due out of any note are April industrial production figures. Output is forecast to have dipped by 0.4%, but may fall by more given very weak Germany data released on Friday. Such a decline would leave the year-on-year growth rate at -0.4%.

	Interest Rate Forecasts			
	Current	End Q2 2019	End Q3 2019	End Q4 2019
Fed Funds	2.375	2.375	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.75	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 Q2 2019	End Q3 2019	End Q4 2019
EUR/USD	1.1319	1.12	1.13	1.14
EUR/GBP	0.8881	0.89	0.89	0.89
EUR/JPY	122.34	123	123	123
GBP/USD	1.2742	1.26	1.27	1.28
USD/JPY	108.07	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
<b>This Week:</b>	<b>BoE Speakers:</b>	Haldane, Saunders (Monday); Broadbent, Saunders, Vlieghe (Tuesday); <b>Carney</b> (Friday)		
	<b>ECB Speakers:</b>	de Guindos (Monday); Rehn (Tuesday); Coeure, de Guindos, <b>Draghi</b> (Wednesday); de Guindos, Lautenschlager (Friday)		
<b>Mon 10th</b>	<b>Most EU-19:</b>	Whit Monday (Market Holiday)		
	<b>JPN:</b> 00.50	GDP (Q1: Second Reading)	+0.5% / +2.1% s.a.a.r.	+0.5% / +2.1%
	<b>JPN:</b> 06.00	Economy Watchers' Poll (May)	45.3	
	<b>ITA:</b> 09.00	Industrial Output (April)	-0.9%	+0.2%
	<b>UK:</b> 09.30	GDP (3 months to April)	+0.5% (+1.9%)	+0.4% (+1.7%)
	<b>UK:</b> 09.30	Industrial Output (April)	+0.7% (+1.3%)	-0.7% (+1.0%)
		- Manufacturing	+0.9% (+2.6%)	-1.1% (+2.2%)
	<b>UK:</b> 09.30	Goods Trade Balance (April)	£13.65bn	£12.96bn
		- Non-EU	£4.36bn	£4.48bn
<b>Tue 11th</b>	<b>UK:</b> 09.30	ILO Employment (3 months to April)	+99,000	+13,000
		- Unemployment	3.8%	3.8%
	<b>UK:</b> 09.30	Average Weekly Earnings (3 months to April)	(+3.2%)	(+3.0%)
		- Ex-Bonus	(+3.3%)	(+3.1%)
	<b>EU-19:</b> 09.30	Sentix Index (June)	5.3	2.9
	<b>US:</b> 11.00	NFIB Business Optimism (May)	103.5	
	<b>US:</b> 13.30	PPI (May)	(+2.2%)	(+2.0%)
<b>Wed 12th</b>	<b>JPN:</b> 00.50	Domestic Wholesale Prices (May)	(+1.2%)	(+0.7%)
	<b>JPN:</b> 00.50	Core Machinery Orders (April)	(-0.7%)	(-5.3%)
	<b>US:</b> 13.30	CPI (May)	(+2.0%)	(+1.9%)
		- Core (Ex-Food & Energy)	(+2.1%)	(+2.1%)
	<b>US:</b> 19.00	Federal Budget (May)	May '18: -\$147bn	
<b>Thurs 13th</b>	<b>UK:</b> 00.01	RICS House Price Survey (May)	-23	-21
	<b>GER:</b> 07.00	Final HICP (May)	(+1.3%)	(+1.3%)
	<b>EU-19:</b> 10.00	Industrial Production (April)	-0.3% (-0.6%)	-0.4% (-0.4%)
	<b>IRL:</b> 11.00	<b>CPI (May)</b>	<b>(+1.7%)</b>	<b>(+1.3%)</b>
	<b>IRL:</b> 11.00	<b>Residential Property Prices (April)</b>	<b>+0.2% (+3.9%)</b>	<b>+0.3% (+3.2%)</b>
	<b>US:</b> 13.30	Import / Export Prices (May)	+0.2% / +0.2%	
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 3rd June)	218,000	220,000
<b>Fri 14th</b>	<b>CHINA:</b> 03.00	Industrial Output (May)	(+5.4%)	(+5.5%)
	<b>FRA:</b> 07.45	Final HICP (May)	(+1.1%)	(+1.1%)
	<b>ITA:</b> 10.00	Final HICP (May)	(+0.9%)	(+0.9%)
	<b>IRL:</b> 11.00	<b>Goods Trade Balance (April)</b>	<b>€4.1bn</b>	<b>€4.5bn</b>
	<b>US:</b> 13.30	Retail Sales (May)	-0.2%	+0.6%
		- Ex-Autos	+0.1%	+0.4%
		- Ex-Gas, Autos & Building Materials	+0.0%	+0.4%
	<b>US:</b> 14.15	Industrial Production (May)	-0.5%	+0.2%
		- Capacity Utilisation	77.9%	78.0%
	<b>US:</b> 15.00	Prelim' Michigan Consumer Sentiment (June)	100.0	98.1

◆ 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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