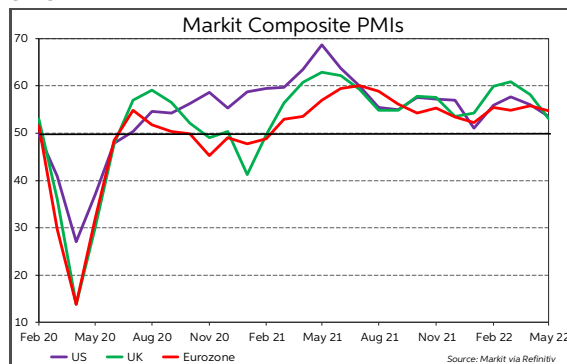


Shock and Awe

- The policy meetings of central banks this month have almost uniformly delivered far more hawkish outcomes than markets had been expecting, or indeed, central banks themselves had been guiding.** The Fed had previously indicated that a 75bps hike was not under active consideration for the June FOMC meeting, but this is what it delivered. The Swiss National Bank stunned markets with a completely unexpected 50bps hike this week. The BoE hiked rates as anticipated by 25bps, but hardened its stance on the policy outlook, saying it would act forcefully if necessary to counteract inflationary pressures. The ECB was also more hawkish than expected, indicating that a larger hike than the 25bps it has pencilled in for July may be appropriate at its September meeting. Meanwhile, an array of other central banks have announced bigger than expected rate increases at their June policy meetings.
- Markets now see rates getting to 3.75% in the US and 3.4% in the UK by early next year, with euro rates hitting 2.25% by end 2023.** This represents rapid policy tightening of circa 275-360bps in the major economies. Add to this, the squeeze on household real incomes from near double-digit inflation, a less supportive stance to fiscal policy and marked tightening in conditions on financial markets, and it is severely testing investors' faith in a soft landing. Instead, recession fears are taking hold as evidenced by the sharp sell-off in stock markets which has gathered fresh momentum this month. The S&P index has entered bear market territory and is now down almost 25% year-to-date. Meanwhile, bond markets have come under severe pressure also, with ten year German and US yields rising by close to 200bps, this year on the back of monetary tightening and spiralling inflation.
- Nonetheless, the macro forecasts published by the Fed and ECB this month show that they both expect their economies to comfortably avoid recession.** The Fed sees the US economy growing at a 1.7-1.9% rate over the next two years, which is slightly below trend and thus would see unemployment edge up a small bit. The ECB is forecasting growth of circa 2% in both 2023 and 2024, with unemployment stable. In their recent updates, the World Bank and OECD also projected moderate growth for advanced economies over the next couple of years. Official forecasters believe that the enormous build-up of private sector savings in advanced economies over the past two years combined with strong labour markets will help sustain activity. The Fed may also be cognisant that the US economy easily withstood the last episode of aggressive monetary tightening in 1994, when rates were hiked from 3% to 6%.
- Markets, though, are taking little comfort from these forecasts and look set to remain very volatile.** They are unlikely to reach a turning point until inflation moves on to a clear downward path. However, inflation has not even peaked yet. Indeed, the lesson of the past couple of months is that central banks are now responding to further unexpected spikes in prices. This poses a continuing risk for bonds markets, but they may well stabilise before equities, especially if data point to growing risks of a recession. This could bring rate cuts on to the agenda next year. On the other hand, a recession would compound the difficulties facing equities. Corporate earnings would come under severe pressure, prolonging the bear market in stocks.
- Turning to the week ahead, the main release of note will be the flash PMIs in the US, Eurozone and UK for June.** In May, both sector readings moved lower across the board, but remained in expansion territory, consistent with continued growth, albeit at a slower pace. However, the slowdown varied significantly by sector and country. In the US, the manufacturing PMI remained at a robust level of 57, down from 59.2 in April. Meanwhile, the services PMI declined for the second month running, falling to 53.4. In the UK, the services sector reading moved sharply lower to 53.4, from 58.9, while the manufacturing PMI fell to 54.6, its lowest level since January 2021. Similarly in the Eurozone, the manufacturing PMI also eased to 54.6, with the services index softening to 56.1. A further modest decline in the indices is forecast for June in all three economies.
- Elsewhere in the Eurozone, a slew of other survey data, including the flash reading of consumer confidence for June will also feature.** Having improved slightly (albeit from very low levels) in May, the index is projected to deteriorate somewhat in June. In terms of national data, the closely followed German Ifo, as well as French and Italian business and consumer confidence indices for June will all garner attention. It is envisaged the indices will edge lower.
- In the UK, all eyes will be on the latest CPI inflation data for May.** Headline CPI jumped to 9% in April, its highest level since 1981, while the core rate stood at 6.2%. The Bank of England upped its inflation forecast for this year, and now sees inflation peaking at over 11% in October. The consensus estimate for May's inflation data is for headline CPI to rise to 9.1%, with the core rate inching lower to 6%. Meanwhile, retail sales are expected to reverse its gains from April, falling by 1.4% in May. Consumer confidence, which is already at an all-time low of -40 is forecast to edge down to -41 in June.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2022	2022	2023
Fed Funds	1.625	2.625	3.375	3.625
ECB Deposit	-0.50	0.25	1.00	1.25
BoE Repo	1.25	1.75	2.25	2.25
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	End Q3	End Q4
		2022	2022	2022
EUR/USD	1.0460	1.05	1.06	1.07
EUR/GBP	0.8577	0.85	0.86	0.87
EUR/JPY	141.43	140	142	144
GBP/USD	1.2194	1.24	1.23	1.23
USD/JPY	135.18	133	134	135

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Mon)		
	BoE Speakers:	Haskel, Mann (Mon); Tenreyro (Tue); Cunliffe (Wed); Pill, Haskel (Fri)		
	Fed Speakers:	Mester, Barkin (Tue); Powell , Evans, Harker, Barkin (Wed); Powell (Thu); Daly (Fri)		
		EU Leader's Summit (Thu-Fri)		
Mon 20th	US:	Juneteenth (Market Holiday)		
	GER: 07:00	Producer Prices (May)	+2.8% (+33.5%)	+1.5% (+33.5%)
Tue 21st	UK: 00:01	Rightmove House Prices (June)	+2.1% (+10.2%)	
	US: 15:00	Existing Home Sales (May)	+5.6m / -2.4%	+5.4m / -3.7%
Wed 22nd	UK: 07:00	CPI (May)	+2.5% (+9.0%)	+0.6% (+9.1%)
		- Core-CPI	+0.7% (+6.2%)	+0.6% (+6.0%)
	UK: 07:00	PPI Input Prices (May)	+1.1% (+18.6%)	
		- Output Prices	+2.3% (+14.0%)	
	EU-19: 15:00	Flash Consumer Confidence (June)	-21.1	-20.8
Thu 23rd	JPN: 01:30	Flash Jibun Composite PMI (June)	52.3	
	FRA: 07:45	INSEE Business Climate (June)	106	105
	FRA: 08:15	Flash S&P Composite PMI (June)	57.0	56.0
	GER: 08:30	Flash S&P Composite PMI (June)	53.7	53.1
	EU-19: 09:00	Flash S&P Composite PMI (June)	54.8	54.0
		- Manufacturing / Services	54.6 / 56.1	53.9 / 55.5
	UK: 09:30	Flash S&P / CIPS Composite PMI (June)	53.1	52.7
		- Manufacturing / Services	54.6 / 53.4	53.8 / 53.0
	IRL: 11:00	Census 2022 (Preliminary Results)		
	US: 13:30	Initial Jobless Claims (w/e 13th June)	+229,000	+229,000
	US: 14:45	Flash S&P Composite PMI (June)	53.6	
		- Manufacturing / Services	57.0 / 53.4	56.4 / 53.3
Fri 24th	UK: 00:01	Gfk Consumer Sentiment (June)	-40	-41
	JPN: 00:30	CPI (May)	(+2.5%)	
		- Core	(+2.1%)	(+2.1%)
	UK: 07:00	Retail Sales (May)	+1.4% (-4.9%)	-0.9% (-4.8%)
		- Ex-Fuel	+1.4% (-6.1%)	-1.4% (-5.2%)
	SPA: 08:00	GDP (Q1: Final Reading)	+0.3% (+6.4%)	+0.3% (+6.4%)
	ITA: 09:00	ISTAT Business Confidence (June)	109.3	108.5
	ITA: 09:00	Consumer Confidence (June)	102.7	102.0
	GER: 09:00	Ifo (June)	93.0	92.9
	US: 15:00	Final Uni. Michigan Consumer Sentiment (June)	50.2	50.2
	US: 15:00	New Home Sales (May)	+0.6m / -16.6%	+0.6m / -1.9%

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