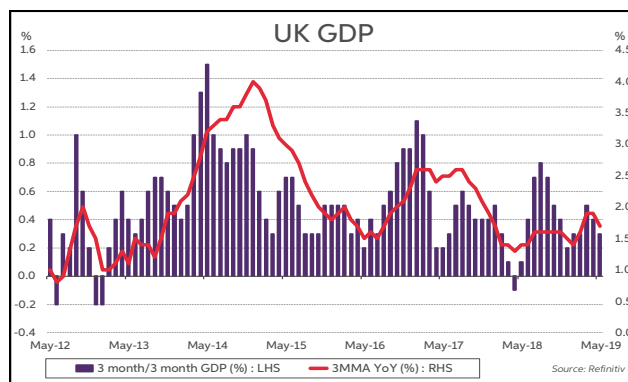


## Clouds Gathering on the Trade Horizon

- Monetary policy was once again front and centre of the market's gaze over recent days.** This is in the context of the crucial support that dovish tones from the main central banks have provided to investor sentiment since the early part of this year. With the Bank of England on hold awaiting Brexit, the attention was focused on the US Fed policy meeting. As was widely expected, the FOMC cut rates by 25bps, lowering the target of the fed funds rate to 2.0-2.25%.
- The heightened sensitivity of markets to central bank newsflow was on full display following the Fed's meeting.** Wall Street traded lower, while the dollar made some gains. Rate cut expectations were also pared back in the aftermath of the meeting, with futures contracts pricing in around 50bps of further easing over the next year, rather than the 75bps beforehand. This indicates that markets had been hoping for a much more dovish interest rate outlook from the Fed.
- Instead, Fed Chair Powell emphasised that this was not the start of a lengthy rate cutting cycle and should instead be viewed as merely a mid-cycle adjustment to policy.** His comments indicated that the reason for the rate cut had more to do with the slowdown in the global economy and heightened uncertainty in relation to global trade, rather than any major concerns over the outlook for the US economy. Indeed, he commented that the domestic economy was performing "pretty well". The latest data continue to support this view, with the July payrolls figure, released on Friday, coming in at 164k.
- With respect to the potential for further rate cuts, while not ruling anything out, the Fed downplayed the prospects of this.** The central bank has indicated that it will assess the incoming data, as well as evolving developments in the global economy and trade, in the coming months. In the days since the Fed meeting, trade tensions have already flared up again, with the Trump administration announcing a new round of tariffs on Chinese exports. This has seen rate expectations return to their pre-Fed meeting positions, pricing in a further 75bps of easing from the Fed over the next 12 months. Any further deterioration in global trade tensions could see market speculation for additional rate cuts grow in the coming weeks.
- This week, the highlight of what is a quiet macro calendar is the first estimate of UK GDP for Q2.** The economy looks to have lost considerable momentum in the quarter. Leading indicators, such as the PMIs, point to a very subdued level of economic activity. The available hard data, with the exception of retail sales, have been similarly weak. Overall, the forecast is for growth to have been flat in the quarter, a significant step down compared to Q1's 0.5% rate which was boosted by the impact of Brexit-related stockpiling. Meanwhile, the June reading of the industrial production index is expected to confirm that output dipped by 0.2%, with the manufacturing sector continuing to struggle.
- In the US, the only release of any note is the July non-manufacturing ISM.** In contrast to the manufacturing index, which has been on a steady downward trend since the start of Q2, services activity has held up comparatively well. This dichotomy looks to have continued in July, with the non-manufacturing ISM projected to have improved to 55.5, from 55.1, a level consistent with a reasonable rate of growth.
- Meantime, the main releases in the Eurozone this week are national industrial production figures.** Global trade tensions have weighed heavily on the sector over the past 9 months. It is anticipated that the German output index declined by 0.5%, leaving it at its lowest level since early 2017. The rate of decline is expected to have been even more severe in France, with a sharp fall of 1.8% forecast. However, this followed a strong 2.1% increase in May.
- Elsewhere, the Q2 reading of Japanese GDP is due.** Growth was recorded at a strong 2.2% in annualised terms in the opening quarter of the year. The reversal of factors that temporarily pushed growth higher in the opening quarter, combined with ongoing weakness in domestic demand, is expected to see growth slow to just 0.4% in Q2. **Elsewhere, both the Australian and New Zealand central banks meet this week.** The consensus is that the former will leave rates unchanged, while the latter may cut by 25bps, leaving its key policy rate at 1.25%.



|  | Interest Rate Forecasts |        |        |        |
|--|-------------------------|--------|--------|--------|
|  | Current                 | End Q3 | End Q4 | End Q1 |
|  |                         | 2019   | 2019   | 2020   |
| Fed Funds                                  | 2.125                   | 2.125  | 2.125  | 2.125  |
| ECB Deposit                                | -0.40                   | -0.50  | -0.50  | -0.50  |
| 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 Q3 | End Q4 | End Q1 |
|  |  | 2019   | 2019   | 2020   |
| EUR/USD                                    | 1.1099                                       | 1.14   | 1.16   | 1.17   |
| EUR/GBP                                    | 0.9138                                       | 0.90   | 0.88   | 0.87   |
| EUR/JPY                                    | 118.48                                       | 122    | 122    | 123    |
| GBP/USD                                    | 1.2142                                       | 1.27   | 1.32   | 1.36   |
| USD/JPY                                    | 106.74                                       | 106    | 105    | 105    |
| Current Rates Reuters, Forecasts AIB's ERU |  |        |        |        |

| Date              | UK & Irish Time (GMT)    | Release                                      | Previous              | Forecast              |
|-------------------|--------------------------|--|-----------------------|-----------------------|
| <b>This Week:</b> | <b>Fed Speakers:</b>     | Bullard, Harker (Tuesday); Evans (Wednesday) |                       |                       |
| <b>Mon 5th</b>    | <b>IRL:</b>              | <b>Market Holiday</b>                        |                       |                       |
|                   | <b>JPN:</b> 01.30        | Markit Services PMI (July)                   | 51.9                  |                       |
|                   | <b>CHINA:</b> 02.45      | Caixin Services PMI (July)                   | 52.0                  |                       |
|                   | <b>ITA:</b> 08.45        | Markit Composite PMI (July)                  | 50.1                  |                       |
|                   | <b>FRA:</b> 08.50        | Final Markit Composite PMI (July)            | 52.7 / 51.7 (p)       | 51.7                  |
|                   | <b>GER:</b> 08.55        | Final Markit Composite PMI (July)            | 52.6 / 51.4 (p)       | 51.4                  |
|                   | <b>EU-19:</b> 09.00      | Final Markit Composite PMI (July)            | 52.2 / 51.5 (p)       | 51.5                  |
|                   |                          | - Services                                   | 53.6 / 53.3 (p)       | 53.3                  |
|                   | <b>UK:</b> 09.30         | Markit / CIPS Services PMI (July)            | 50.2                  | 50.2                  |
|                   | <b>EU-19:</b> 09.30      | Sentix Index (August)                        | -5.8                  | -7.7                  |
|                   | <b>US:</b> 14.45         | Final Markit Composite PMI (July)            | 51.5 / 51.6 (p)       | 51.6                  |
|                   |                          | - Services                                   | 51.5 / 52.2 (p)       | 52.2                  |
|                   | <b>US:</b> 15.00         | Non-Manufacturing ISM (July)                 | 55.1                  | 55.5                  |
|                   |                          | - Business Activity                          | 58.2                  | 58.3                  |
| <b>Tue 6th</b>    | <b>UK:</b> 00.01         | BRC Retail Sales (July)                      | -1.6%                 |                       |
|                   | <b>IRL:</b> <b>01.01</b> | <b>AIB Services PMI (July)</b>               | <b>56.9</b>           |                       |
|                   | <b>AUS:</b> 05.30        | RBA Interest Rate Decision                   | 1.00%                 | 1.00%                 |
|                   | <b>JPN:</b> 06.00        | Leading Indicators' Index (June)             | -1.0                  |                       |
|                   | <b>GER:</b> 07.00        | Industrial Orders (June)                     | -2.2%                 | +0.4%                 |
| <b>Wed 7th</b>    | <b>NZL:</b> 02.00        | RBNZ Interest Rate Decision                  | 1.50%                 | 1.25%                 |
|                   | <b>GER:</b> 07.00        | Industrial Output (June)                     | +0.3%                 | -0.6%                 |
|                   | <b>FRA:</b> 07.45        | Trade Balance (June)                         | -€3.3bn               |                       |
|                   | <b>US:</b> 20.00         | Consumer Credit (June)                       | \$17.1bn              | \$16.0bn              |
| <b>Thurs 8th</b>  | <b>UK:</b> 00.01         | RICS House Price Survey (July)               | -1                    | 1                     |
|                   | <b>JPN:</b> 06.00        | Economy Watchers' Poll (July)                | 44.0                  |                       |
|                   | <b>IRL:</b> <b>11.00</b> | <b>CPI (July)</b>                            | <b>+0.2% (+1.1%)</b>  | <b>+0.2% (+0.9%)</b>  |
|                   | <b>IRL:</b> <b>11.00</b> | <b>New Dwelling Completions</b>              | <b>4,275 (+23.2%)</b> | <b>5,250 (+19.2%)</b> |
|                   | <b>US:</b> 13.30         | Initial Jobless Claims (w/e 29th July)       | 215,000               | 215,000               |
| <b>Fri 9th</b>    | <b>JPN:</b> 00.50        | GDP (Q2: First Reading)                      | +2.2% s.a.a.r.        | +0.4%                 |
|                   | <b>GER:</b> 07.00        | Trade Balance (June)                         | €18.7bn               | €18.4bn               |
|                   |                          | - Exports                                    | +1.1%                 | -0.1%                 |
|                   | <b>FRA:</b> 07.45        | Industrial Output (June)                     | +2.1%                 | -1.8%                 |
|                   | <b>UK:</b> 09.30         | GDP (Q2: First Reading)                      | +0.5% (+1.8%)         | +0.0% (+1.4%)         |
|                   | <b>UK:</b> 09.30         | Industrial Output (June)                     | +1.4% (+0.9%)         | -0.2% (-0.2%)         |
|                   | <b>UK:</b> 09.30         | Goods Trade Balance (June)                   | -£11.52bn             | -£11.86bn             |
|                   |                          | - Non-EU                                     | -£4.91bn              |                       |
|                   | <b>ITA:</b> 10.00        | Final HICP (July)                            | (+0.4%)               | (+0.4%)               |
|                   | <b>US:</b> 13.30         | PPI (July)                                   | (+1.7%)               | (+1.7%)               |

◆ 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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