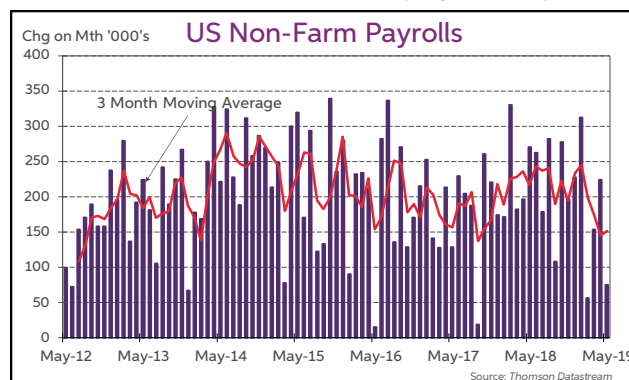


Currency Corridor

- The US dollar has been quite range bound against the other major currencies in the past year.** The EUR/USD rate has largely traded in a narrow \$1.11-1.15 band since last October. Meanwhile, sterling has generally traded in a \$1.26-1.33 range since mid-2018. Forex market positioning has become extremely long the dollar, which could be a warning sign for the currency. Other factors may also be turning against the dollar. The US economy is expected to move on to a slower growth path in the coming year, with the Fed likely to start cutting rates, to help sustain the expansion in activity. The marked jump in the repatriation of funds to the US following the cuts in its corporate taxes last year should also abate, lessening demand for the currency.
- Nonetheless, the relative strength of the US economy, wide interest rate differentials and geopolitical uncertainties all remain supportive of the currency.** The persistence of very low interest rates elsewhere is also making it difficult for other currencies to make ground against the dollar. Indeed, rates have started to be cut in some countries recently, with the ECB also hinting that it may soon loosen policy.
- The extent of policy easing by the Fed is likely to be a major factor impacting the dollar over the balance of this year and into 2020.** If the Fed delivers the 100bps of rate cuts expected by the market, it is likely to put downward pressure on the dollar as it would probably mean that there is a sharp slowdown in the US economy. On the other hand, rate cuts of 50bps or less would signal just a modest deceleration in US growth. The dollar may not lose much ground in these circumstances, especially with other central banks moving on to a loosening path also. It would also mean that US rates will remain relatively high. The euro has moved up from around \$1.11 to near \$1.14 in the past month. It could move up towards the \$1.18 level if the Fed starts to cut rates. It is worth noting that the EUR/USD rate has spent very little time above the \$1.20 level since 2014 so it would probably take significant rate cuts in the US to drive the euro above this level, given that the ECB is also likely to be easing policy.
- Turning to the week ahead, the highlight of the global macro calendar is the release of US employment report for June.** Non-farm payrolls expanded by just 75k in May, reflecting a downshift in jobs growth in most industries. The forecast is for an increase of 158k in payrolls in June. At the same time, the unemployment rate is forecast to have held at the multi-decade low level of 3.6%. Overall, the tightness of the labour market is expected to see the yearly growth rate of average earnings move back up to 3.2%.
- An update on the output side of the US economy will be provided in the June ISMs.** Mirroring the PMIs, the ISMs are expected to show that economic growth may have eased in the month. It is envisaged that the manufacturing sector's index fell to 51.0, from 52.1, leaving it at a close to 3-year low. The non-manufacturing ISM also looks to have declined, to 56.1 from 56.9 in May, still at a level consistent with a solid level of growth.
- In the UK, the June PMIs also take centre stage.** The composite index is projected to have improved marginally, increasing to 51.0, from 50.9. In terms of the sectoral breakdown, it is envisaged that the services index will have edged slightly higher, while the manufacturing PMI looks to have remained below the 50 level that separates expansion from contraction. Overall, the data are likely to suggest that the UK economy remained on the back foot at end Q2.
- Meanwhile, the Eurozone schedule this week includes the May estimate of unemployment.** The jobless rate is forecast to have held at 7.6%, having edged lower for three consecutive months. Separately, retail sales are expected to have increased by 0.4% in May, leaving the year-on-year growth rate at 1.6%. Finally, there may be an announcement on Monday on new appointments to the key EU posts, including the President of the ECB.
- Elsewhere, the Reserve Bank of Australia is meeting this week and may again cut rates by 25bps to 1.0% in an effort to support the slowing economy.** Meanwhile, the Chinese June PMIs will also warrant some attention. The expectation is for little change in either the manufacturing or services indices, suggesting that activity remains soft.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2019	2019	2020
Fed Funds	2.375	2.125	2.125	2.125
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 Q3	End Q4	End Q1
		2019	2019	2020
EUR/USD	1.1381	1.15	1.16	1.17
EUR/GBP	0.8953	0.90	0.88	0.87
EUR/JPY	122.63	122	122	123
GBP/USD	1.2710	1.28	1.32	1.36
USD/JPY	107.74	106	105	105

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Broadbent, Haldane (Wednesday)		
	ECB Speakers:	de Guindos, Lane (Monday); Lane, de Guindos (Thursday); de Guindos (Friday)		
	Fed Speakers:	Clarida (Monday); Mester, Williams (Tuesday)		
	EU-28:	Special Meeting of the European Council (Sunday night through Monday morning)		
Mon 1st	JPN:	00.50 Tankan Big Manufacturing Index (Q2)	12	9
		- Non-Manufacturing	21	20
	JPN:	01.30 Nikkei Manufacturing PMI (June)	49.5	
	CHINA:	02.45 Caixin Manufacturing PMI (June)	50.2	50.0
	IRL:	06.00 AIB Manufacturing PMI (June)	50.4	
	GER:	08.55 Unemployment (June)	5.0%	5.0%
	ITA:	09.00 Unemployment (May)	10.2%	
	EU-19:	09.00 M3 Money Supply (May)	(+4.7%)	(+4.6%)
	EU-19:	09.00 Final Markit Manufacturing PMI (June)	47.7 / 47.8 (p)	47.8
	UK:	09.30 BoE Mortgage Approvals (May)	66,261	65,600
	UK:	09.30 CIPS / Markit Manufacturing PMI (June)	49.4	49.2
	EU-19:	10.00 Unemployment (May)	7.6%	7.6%
	US:	14.45 Final Markit Manufacturing PMI (June)	50.5 / 50.1 (p)	50.1
	US:	15.00 Construction Spending (May)	+0.0%	+0.2%
	US:	15.00 Manufacturing ISM (June)	52.1	51.0
Tue 2nd	AUS:	02.30 RBA Interest Rate Decision	1.25%	1.00%
	UK:	07.00 Nationwide House Prices (June)	-0.2% (+0.6%)	+0.2% (+0.5%)
	GER:	07.00 Retail Sales (May)	-2.0%	+0.5%
	UK:	09.30 CIPS / Markit Construction PMI (June)	48.6	49.3
	EU-19:	10.00 PPI (May)	-0.3% (+2.6%)	-0.1% (+1.6%)
	IRL:	11.00 Unemployment (June)	4.4%	4.4%
	IRL:	16.30 Exchequer Balance (June)	June '18: -€0.8bn	-€1.5bn
Wed 3rd	CHINA:	02.45 Caixin Services PMI (June)	52.7	
	IRL:	06.00 AIB Services PMI (June)	57.0	
	SWE:	08.30 Riksbank Interest Rate Decision	-0.25%	
	ITA:	08.45 Markit Composite PMI (June)	49.9	
	FRA:	08.50 Final Markit Composite PMI (June)	51.2 / 52.9 (p)	52.9
	GER:	08.55 Final Markit Composite PMI (June)	52.6 / 52.6 (p)	52.6
	EU-19:	09.00 Final Markit Composite PMI (June)	51.8 / 52.1 (p)	52.1
		- Services	52.9 / 53.4 (p)	53.4
	UK:	09.30 CIPS / Markit Composite PMI (June)	50.9	51.0
		- Services	51.0	51.2
	US:	13.30 International Trade Balance (May)	-\$50.8bn	-\$53.1bn
	US:	13.30 Initial Jobless Claims (w/e 24th June)	227,000	220,000
	US:	14.45 Final Markit Composite PMI (June)	50.9 / 50.6 (p)	50.6
		- Services	50.9 / 50.7 (p)	50.7
	US:	15.00 Factory Orders (May)	-0.8%	-0.5%
	US:	15.00 Non-Manufacturing ISM (June)	56.9	56.1
Thurs 4th	US:	Independence Day (Market Holiday)		
	EU-19:	10.00 Retail Sales (May)	-0.4% (+1.5%)	+0.4% (+1.6%)
	IRL:	11.00 Live Register (June)	-3,500/190,900	-1,900/189,000
Fri 5th	JPN:	06.00 Leading Indicators' Index (May)	0.2	
	GER:	07.00 Industrial Orders (May)	+0.3%	-0.2%
	FRA:	07.45 Trade Balance (May)	-€4.98bn	
	UK:	08.30 Halifax House Prices (June)	+0.5% (+5.2%)	
	US:	13.30 Non-Farm Payrolls (June)	+75,000	+158,000
		- Unemployment	(3.6%)	(3.6%)
		- Average Earnings	(+3.1%)	(+3.2%)

◆ 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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