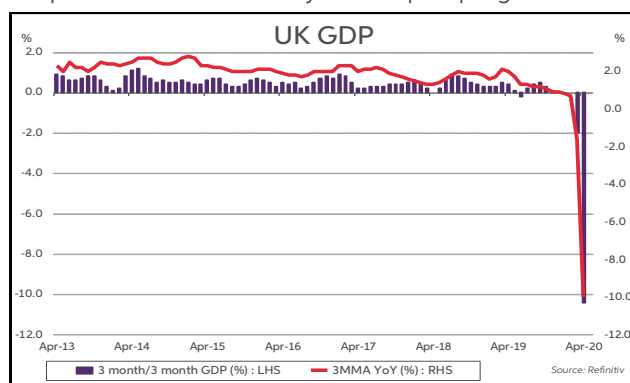


## Uncertainty is the Word

- **There was a more subdued and cautious tone to the action on financial markets over the last week.** This followed the previous week's gains of 3-4% on most of the main equity indices. One reason for the more muted moves over recent days was the quiet macro calendar, with very little in the way of top tier data being released. Another more fundamental reason is the fact that there is still a high degree of uncertainty over the future course of the Covid-19 virus and therefore enormous uncertainty about the economic outlook.
- **Indeed, the European Commission in its Summer 2020 Economic Forecast published this week noted that the global economic outlook remains "subject to extraordinary uncertainty" and that the risks continue to be "severe and interconnected, leaving the balance of risks still tilted to the downside".** In a similar vein, the IMF's Chief Economist emphasized that there is still tremendous uncertainty for the global economy and that it will require ongoing fiscal and monetary support. Meanwhile, the US Fed's Bostic commented that the US economic recovery will be uneven and that he does not expect the economy to return to its pre-Covid level "until mid-2021 or maybe later into 2022".
- **The macro data out of the major advanced economies has tended to surprise to the upside of expectations recently.** This suggests that the economic rebound is happening at a quicker pace than initially anticipated. However, Covid-19 cases are surging again in the US. Other countries have also reported renewed spikes. As a result, there has been a re-imposition of some restrictions in these areas. This highlights the difficult challenges that remain in trying to balance reopening economies while at the same time managing the human health aspect of the crisis. Therefore, key leading macro indicators will be closely scrutinized over the coming months to see whether the recovery is being maintained or if it is stalling.
- **Turning to the week ahead, the ECB will hold its July policy meeting.** However, no changes to policy are expected as the central bank only last month announced an increase in the size of its asset purchases under PEPP from €750bn to €1.35trn. Indeed, recently some Governing Council members have indicated that the full envelope may not be needed if the current trend in strong macro data is maintained. It will be interesting to see if President Lagarde agrees with this assessment or if she adopts a more dovish stance. The European Council will also meet for a special summit on Friday. It is hoped progress will be made in relation to agreeing on the 2021-2027 EU Budget, which is to include the Recovery Fund.
- **Data-wise, some of the main highlights come from the UK.** The May estimate of GDP will be looked to for evidence of the nascent economic recovery that looks to be underway. However, given the extent of the re-opening was limited in the month, the bounce back in output is only forecast at 5% after a 20.4% fall in April. There are also employment figures out for the 3 months to May. It is anticipated that they will provide further evidence of the success of the Job Retention Scheme in preventing mass lay-offs. Job losses are projected at 253k in the period, which would see the unemployment rate move up to 4.1%. The June benefit claims numbers will be looked to for an early read on labour market conditions in the month. Meanwhile, the June print of CPI is also due. Headline inflation is forecast to have picked up slightly as oil prices rose, though the weakness in domestic demand may see the core rate moderate further.
- **In the US, there are updates on the three key sectors of the economy.** In relation to consumer spending, the retail sales report for June will bear close watching. A further increase in sales is projected, following the 18% jump in May, as the gradual re-opening of the economy and government income supports continue to aid spending. However, only a small rise is pencilled in for the flash estimate of the Michigan Consumer sentiment index in July, reflecting in part the Covid situation in the South. There is a risk the localised lockdowns will weigh on consumption in the coming months. It is envisaged that the negative demand shock stemming from the Covid-19 crisis will see core inflation ease to 1.1% from 1.2% in June. However, the recent rise in oil prices may lift the headline rate to 0.3% from 0.1%. **On the supply side, US industrial production likely continued to increase in June.** Output is expected to have increased by 4.3%. Finally, there is also another batch of housing market data due, which includes June housing starts and the July reading of the NAHB homebuilder sentiment index.
- **Elsewhere, the Q2 reading of GDP in China will offer an insight into how the economy is rebounding in the aftermath of the Q1 lockdowns.** Growth is put at 10.4%, but the usual caveat applies when viewing official Chinese data. The Bank of Japan is also due to meet, but no changes to policy are anticipated.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2020	2020	2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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
		2020	2020	2020
EUR/USD	1.1312	1.12	1.13	1.14
EUR/GBP	0.8940	0.91	0.88	0.88
EUR/JPY	120.71	120	122	124
GBP/USD	1.2651	1.23	1.28	1.30
USD/JPY	106.69	107	108	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>BoE Speakers:</b>	<b>Bailey</b> (Monday); Tenreyro (Wednesday); <b>Bailey</b> , Haldane (Thursday); <b>Bailey</b> (Friday)		
	<b>ECB Speakers:</b>	de Guindos (Friday)		
	<b>Fed Speakers:</b>	Williams (Monday); Brainard, Bullard (Tuesday); Harker (Wednesday); Williams, Evans (Friday)		
	<b>EU-27:</b>	EU Leaders' Summit (Friday through Saturday)		
<b>Mon 13th</b>	<b>US:</b>	19.00 Federal Budget (June)	June '19: -\$8bn	
<b>Tue 14th</b>	<b>CHINA:</b>	Trade Balance (June)	\$62.9bn	\$58.6bn
		- Exports	(-3.3%)	(-1.4%)
	<b>UK:</b>	00.01 BRC Retail Sales (June)	(+7.9%)	
	<b>GER:</b>	07.00 Final HICP (June)	(+0.8%)	(+0.8%)
	<b>UK:</b>	07.00 GDP (May)	-20.4% (-24.5%)	+5.0% (-20.9%)
	<b>UK:</b>	07.00 Industrial Output (May)	-20.3% (-24.4%)	+6.0% (-21.0%)
		- Manufacturing	-24.3% (-28.5%)	+8.0% (-24.0%)
	<b>UK:</b>	07.00 Goods Trade Balance (May)	-\$7.5bn	-\$8.2bn
		- Non-EU	-\$2.7bn	
	<b>GER:</b>	10.00 ZEW Economic Sentiment (July)	63.4	60 .0
	<b>EU-19:</b>	10.00 Industrial Production (May)	-17.1% (-28.0%)	+13.4% (-20.5%)
	<b>US:</b>	13.30 CPI (June)	(+0.1%)	(+0.3%)
		- Core	(+1.2%)	(+1.1%)
<b>Wed 15th</b>	<b>JPN:</b>	03.00 BoJ Interest Rate Announcement	-0.10%	-0.10%
	<b>UK:</b>	07.00 CPI (June)	(+0.5%)	(+0.5%)
		- Core	(+1.2%)	(+1.1%)
	<b>UK:</b>	07.00 PPI Output Prices (June)	(-1.4%)	
		- Input	(-10.0%)	
	<b>ITA:</b>	09.00 Final HICP (June)	(-0.4%)	
	<b>IRL:</b>	<b>11.00 Residential Property Prices (May)</b>	<b>-0.3% (+0.5%)</b>	<b>-0.2% (+0.0%)</b>
	<b>US:</b>	14.15 Industrial Production (June)	+1.4%	+4.3%
		- Capacity Utilisation	64.8%	67.4%
		- Manufacturing Output	+3.8%	+5.7%
<b>Thurs 16th</b>	<b>CHINA:</b>	03.00 GDP (Q2)	-9.8% (-6.8%)	+10.4% (+2.5%)
	<b>CHINA:</b>	03.00 Industrial Output (June)	(+4.4%)	(+4.7%)
	<b>UK:</b>	07.00 ILO Employment (May)	+6,000	-253,000
		- Unemployment	3.9%	4.1%
	<b>UK:</b>	07.00 Average Weekly Earnings (3 Months to May)	(+1.0%)	(-0.5%)
		- Ex-Bonus	(+1.7%)	(+0.6%)
	<b>UK:</b>	07.00 Claimant Count (June)	+529,000	+250,000
	<b>FRA:</b>	07.45 Final HICP (June)	(+0.1%)	(+0.1%)
	<b>EU-19:</b>	12.45 ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.50%	-0.50%
	<b>EU-19:</b>	13.30 ECB Press Conference		
	<b>US:</b>	13.30 Initial Jobless Claims (w/e 11th July)	1,314,000	1,250,000
	<b>US:</b>	13.30 Philly Fed Index (July)	27.5	20.0
	<b>US:</b>	13.30 Retail Sales (June)	+17.7%	+4.8%
		- Ex-Autos	+12.4%	+4.5%
		- Ex-Gas, Autos & Building Materials	+11.0%	+3.6%
	<b>US:</b>	15.00 NAHB Homebuilder Sentiment (July)	58	59
<b>Fri 17th</b>	<b>EU-19:</b>	10.00 Final HICP (June)	(+0.3%)	(+0.3%)
		- Core	(+1.1%)	(+1.1%)
	<b>US:</b>	13.30 Housing Starts (June)	0.974m / +4.3%	1.15m / +18.1%
		- Building Permits	1.216m / +14.1%	1.28m / +5.3%
	<b>US:</b>	15.00 Prelim. Michigan Consumer Sentiment (July)	78.1	79.1

◆ 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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