

First Cut is the Deepest

- Bond yields have backed up over the past week, with 10 year yields rising by 15-20bps in the US, Eurozone and UK.** This has been largely due to a run of stronger than expected US data, starting with the June employment report that saw non-farm payrolls climb by 224,000. Meanwhile, the 4-week moving average for weekly jobless claims has remained stable at very low levels in recent weeks. On top of this, core CPI inflation registered its biggest jump in June in a nearly a year and a half, with the index rising by 0.3%, pushing the annual rate to 2.1%.
 - None of this is going to deflect the Fed from cutting rates by 25bps at its FOMC meeting at the end of the month.** Chairman Powell in his congressional testimony this week highlighted a long list of downside risks facing the economy, rather than pointing to its continuing resilience. He again stated that the Fed would act to sustain the expansion in activity. A Fed rate cut then, looks nailed on for end July. Meanwhile, the minutes of the June ECB Council meeting published this week, as well as recent comments from ECB board members, indicate that further European policy easing is in the pipeline.
 - The rise in bond yields in the past week, though, suggests that the market may be having second thoughts about the extent of central bank easing and, in particular, if the Fed will follow a July rate reduction, with a string of further rate cuts.** The market had been looking for 100bps of policy easing in total in the coming 12 months, but this has now been scaled back slightly. While trade and manufacturing have weakened considerably everywhere, consumer spending, labour markets and service sectors remain strong in most economies – just look at the June US payrolls figure or Eurozone June services PMI reading of 53.6, while the latest data show a 0.9% rise in EZ industrial production in May. Thus, central banks may not need to deliver all the policy easing that is expected by markets.
 - Turning to the week ahead, the latest UK labour market bulletin is due for release.** Employment growth has moderated in recent months, though it has remained solid at circa 1%. In spite of the slowdown in activity in the 3-months to end-May, the expectation is for employment growth to have maintained its steady growth rate in the period. Meantime, the unemployment rate is forecast to have remained at its multi-decade low level of 3.8%. Overall, the lack of slack in the labour market is expected to see the year-on-year growth rate of underlying earnings edge up to a joint cycle high of 3.5%.
 - However, despite rising wages, inflation remains contained.** Headline inflation is forecast to have held at the BoE's 2% target level in June. At the same time, it is anticipated that the core measure edged up to 1.8%, from 1.7%. As a result, real wage growth should continue to improve. However, consumer spending looks to have remained subdued in June. The consensus is for a 0.3% fall in retail sales volumes in the month, after a decline of 0.5% in May. Although, due to strong growth in Q1, this would leave the year-on-year rate at 2.6%.
- | Month | UK CPI, 3MMA YoY % | UK Avg. Earnings (Ex-Bonus), 3MMA YoY % |
|--------|--------------------|---|
| May-13 | 2.8 | 1.0 |
| May-14 | 1.8 | 1.2 |
| May-15 | 0.5 | 2.8 |
| May-16 | 1.5 | 2.5 |
| May-17 | 2.8 | 2.2 |
| May-18 | 2.5 | 3.0 |
| May-19 | 2.1 | 3.5 |
- In the US, the schedule includes data from the three key sectors of the economy.** On the consumer side, growth in retail sales is envisaged to have slowed in June. The headline and control measures of sales are both projected to have risen by just 0.2% (+0.5% in May). In a timelier update, the flash reading of the University of Michigan's measure of consumer sentiment for July is expected to see confidence remain at a high level, helped by buoyant stock markets. Meantime, industrial production is forecast to be little changed, after a 0.4% rise in May. We also get a batch of housing data this week, including housing starts and building permits for June, as well as the July print of the NAHB Homebuilders' Sentiment index. Finally, the Fed's Beige Book is also due for release and will provide a useful assessment of current economic conditions in the US ahead of the FOMC meeting at the end of the month.
 - Meanwhile, the Eurozone schedule is barren this week.** Indeed, the only data due out of any note is the final reading of June HICP. However, no major revisions are expected. **Elsewhere, the release of Q2 Chinese GDP will warrant attention, though the usual caveat applies when viewing official Chinese figures.** It will be of interest to see how the economy is coping with the slowdown in global trade. The forecast is for growth to have edged slightly lower to 6.2%, from 6.4%.

	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	-0.50	-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	1.1245	1.15	1.16	1.17
EUR/GBP	0.8963	0.90	0.88	0.87
EUR/JPY	121.57	122	122	123
GBP/USD	1.2545	1.28	1.32	1.36
USD/JPY	108.08	106	105	105

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:			
	ECB Speakers:	Villeroy de Galhau (Tuesday); Coeure (Wednesday)		
	Fed Speakers:	Williams (Monday); Bostic, Evans, Kaplan (Tuesday); Bostic, Williams (Thursday); Bullard, Rosengren (Friday)		
Mon 15th	CHINA: 03.00	Industrial Output (June)	(+5.0%)	(+5.2%)
	CHINA: 03.00	GDP (Q2)	(+6.4%)	(+6.2%)
	US: 13.30	NY Fed / Empire State Index (July)	-8.6	0.5
Tue 16th	UK: 09.30	ILO Employment (3 months to May)	+32,000	+48,000
		- Unemployment	3.8%	3.8%
	UK: 09.30	Average Weekly Earnings (3 months to May)	(+3.1%)	(+3.1%)
		- Ex-Bonus	(+3.4%)	(+3.5%)
	GER: 10.00	ZEW Economic Sentiment Index (July)	-21.1	-20.0
	ITA: 10.00	Final HICP (June)	(+0.8%)	(+0.8%)
	IRL: 11.00	Goods Trade Balance (May)	+€5.4bn	+€5.0bn
	US: 13.30	Import / Export Prices (June)	-0.3% / -0.2%	-0.6%
	US: 13.30	Retail Sales (June)	+0.5%	+0.2%
		- Ex-Autos	+0.5%	+0.1%
		- Ex-Gas, Autos & Building Materials	+0.5%	+0.2%
	US: 14.15	Industrial Production (June)	+0.4%	+0.1%
		- Capacity Utilisation	78.1%	78.1%
	US: 15.00	NAHB Homebuilders' Sentiment (July)	64	65
Wed 17th	UK: 09.30	CPI (June)	(+2.0%)	(+2.0%)
		- Ex-Food & Energy	(+1.7%)	(+1.8%)
	UK: 09.30	PPI Output (June)	(+1.8%)	(+1.7%)
		- Input	(+1.3%)	(+0.0%)
	EU-19: 10.00	Final HICP (June)	(+1.2%)	(+1.2%)
		- Ex-Food & Energy	(+1.2%)	(+1.2%)
	US: 13.30	Housing Starts (June)	-0.9% / 1.27m	-0.7% / 1.26m
		- Building Permits	+0.7% / 1.30m	+0.0% / 1.30m
	US: 19.00	Fed Beige Book Published		
Thurs 18th	JPN: 00.50	Trade Balance (June)	-¥967.1bn	¥420.0bn
		- Exports	-7.8%	-5.6%
	UK: 09.30	Retail Sales (June)	-0.5% (+2.3%)	-0.3% (+2.6%)
	US: 13.30	Initial Jobless Claims (w/e 8th July)	209,000	216,000
	US: 13.30	Philly Fed Index (July)	0.3	5.0
	US: 15.00	Leading Indicators' Index	0.0%	+0.1%
Fri 19th	JPN: 00.30	CPI (June)	(+0.7%)	(+0.5%)
	UK: 09.30	PSNB Ex-Interventions (June)	June '18: £4.2bn	£3.9bn
	US: 15.00	Prelim' Michigan Consumer Sentiment (July)	98.2	98.4

◆ 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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