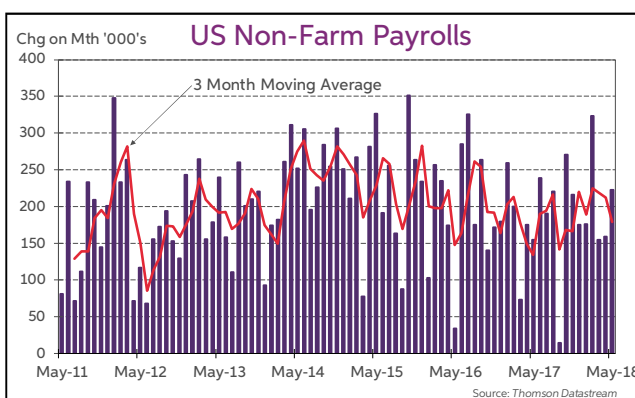


## Scoreless at half-time

- The year may have got off to a flyer, but the first half of 2018 has been characterised by the return of risk aversion and volatility in markets.** This has seen the dollar recover strongly after a weak start to the year and stock markets give up early gains to leave most of the main indices slightly in the red at end June. The one constant has been steady Fed tightening, which has seen the US yield curve shift upwards. Data have generally come in below expectations, apart from in the US. Markets have also been bothered by other factors, including difficulties in a number of large emerging economies, political uncertainty and divisions in the EU and escalating global trade tensions.
- The trade tariffs announced to date are small and will have little impact on global economic activity.** Even a full-blown US-China trade war would have little impact and, indeed, would create opportunities for other countries to increase exports. China would be the clear loser in such a scenario, as it exports far more to the US than the US exports to it. **A global trade war would be a completely different event, but one that seems unlikely as there would be no winners, only losers.** Estimates vary on how much it would knock off global growth. There would also be secondary impacts from the damage to confidence, falls in stock markets and possibly tighter monetary policy to counter a rise in inflation. We are a long way from this, however. Nonetheless, markets are likely to remain nervous and will need to keep a close eye on emerging economies, in particular China.
- The focus in the week ahead, from a data perspective, will be on the US employment report for June.** The key non-farm payrolls are anticipated to have recorded another strong increase of 200k in the month. **The US unemployment rate fell to an 18-year low of 3.8% in May and it is expected to have held at that level in June.**
- Recent survey data also indicate a tightening of conditions, including the NFIB 'jobs hard to fill' index, which remained near an all-time high in May. Thus, **the data suggest that there is little slack left in the US labour market. Despite this, year-on-year growth in average hourly earnings is seen at 2.8% in June,** continuing in the 2.3-2.8% range it has occupied since Q3 2015. Meanwhile, the latest ISM indices (manufacturing and non-manufacturing) for June will provide a useful indication of how the economy ended Q2.
- In terms of US monetary policy, the Fed minutes from the June meeting are due.** The FOMC hiked rates at the meeting, while also upgrading its outlook for the economy and signalling a slightly quicker pace of policy tightening this year. Markets are more cautious, though, seeing rates at around 2.6% by end 2020, below the Fed's circa 3.4% projection. Thus, the minutes will be looked to for more details on the discussion that took place on the economic outlook, as well as additional insight into the debate on policy tightening.
- The schedule in the UK is comparatively light. The Markit PMIs for June will warrant attention, though.** Both the services and manufacturing indices for April/May suggested that growth remained modest, after slowing in Q1. They are expected to be broadly unchanged in June.
- Unemployment data for May is the main release of note in the Eurozone.** The unemployment rate has remained on its steady downward trajectory in recent months, falling to a 9½-year low of 8.5% in April. It looks set to have remained at this rate in May. Eurozone retail sales figures for May will also feature this week.



	Interest Rate Forecasts			
	Current	End Q3 2018	End Q4 2018	End Q1 2019
Fed Funds	1.875	2.125	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	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 2018	End Q4 2018	End Q1 2019
EUR/USD	1.1638	1.20	1.22	1.24
EUR/GBP	0.8840	0.87	0.86	0.85
EUR/JPY	128.83	130	131	131
GBP/USD	1.3162	1.38	1.42	1.46
USD/JPY	110.68	108	107	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Praet (Monday); Praet (Tuesday); Mersch (Thursday)		
<b>Mon 2nd</b>	<b>JPN:</b> 00.50	Tankan Big Manufacturing Index (Q2)	24	22
		- Non-Manufacturing	23	23
	<b>CHINA:</b> 02.45	Caixin Manufacturing PMI (June)	51.1	
	<b>ITA:</b> 09.00	Unemployment (May)	11.2%	11.1%
	<b>EU-19:</b> 09.00	Final Markit Manufacturing PMI (June)	55.5 / 55.0 (p)	55.0
	<b>UK:</b> 09.30	CIPS/Markit Manufacturing PMI (June)	54.4	54.0
	<b>EU-19:</b> 10.00	Unemployment (May)	8.5%	8.5%
	<b>US:</b> 15.00	Manufacturing ISM (June)	58.7	58.0
<b>Tue 3rd</b>	<b>AUS:</b> 05.30	RBA Interest Rate Announcement	1.50%	1.50%
	<b>UK:</b> 09.30	CIPS/Markit Construction PMI (June)	52.5	52.4
	<b>EU-19:</b> 10.00	PPI (May)	(+2.0%)	(+2.7%)
	<b>EU-19:</b> 10.00	Retail Sales (May)	+0.1% (+1.7%)	+0.1% (+1.5%)
	<b>IRL:</b> <b>11.00</b>	<b>Unemployment (June)</b>	<b>5.3%</b>	<b>5.3%</b>
	<b>US:</b> 15.00	Factory Orders (May)	-0.8%	-0.1%
	<b>IRL:</b> <b>16.30</b>	<b>Underlying Exchequer Balance (June)</b>	<b>June'17: -€500m</b>	<b>-€750m</b>
	<b>US:</b> 20.30	Total Vehicle Sales (June)	16.91m s.a.a.r.	16.98m
<b>Wed 4th</b>	<b>US:</b>	Independence Day (Market Holiday)		
	<b>CHINA:</b> 02.45	Caixin Services PMI (June)	52.9	
	<b>FRA:</b> 08.50	Final Markit Composite PMI (June)	54.2 / 55.6 (p)	55.6
	<b>GER:</b> 08.55	Final Markit Composite PMI (June)	53.4 / 54.2 (p)	54.2
	<b>EU-19:</b> 09.00	Final Markit Composite PMI (June)	54.1 / 54.8 (p)	54.8
		- Services	53.8 / 55.0 (p)	55.0
	<b>UK:</b> 09.30	CIPS/Markit Services PMI (June)	54.0	54.0
<b>Thurs 5th</b>	<b>GER:</b> 07.00	Industrial Orders (May)	-2.5%	+1.1%
	<b>IRL:</b> <b>11.00</b>	<b>Live Register (June)</b>	<b>-4,100 / 224,900</b>	<b>-2,900 / 222,000</b>
	<b>US:</b> 13.15	ADP National Employment (June)	178,000	190,000
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 30th June)	227,000	224,000
	<b>US:</b> 15.00	Non-Manufacturing ISM (June)	58.6	58.3
		- Business Activity	61.3	
	<b>US:</b> 19.00	FOMC Minutes from 12th-13th June Meeting Published		
<b>Fri 6th</b>	<b>JPN:</b> 06.00	Leading Indicators Index (May)	+1.1% / 106.2	
	<b>GER:</b> 07.00	Industrial Output (May)	-1.0%	+0.4%
	<b>FRA:</b> 07.45	Goods Trade Balance (May)	-€4.95bn	
		- Exports	-1.2%	
	<b>UK:</b> 08.30	Halifax House Prices (June)	+1.5% (+1.9%)	
	<b>US:</b> 13.30	Non-Farm Payrolls (June)	223,000	200,000
		- Unemployment	3.8%	3.8%
		- Average Earnings	+0.3% (+2.7%)	+0.3% (+2.8%)
	<b>US:</b> 13.30	International Trade Balance (May)	-\$46.2bn	-\$43.9bn

◆ 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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