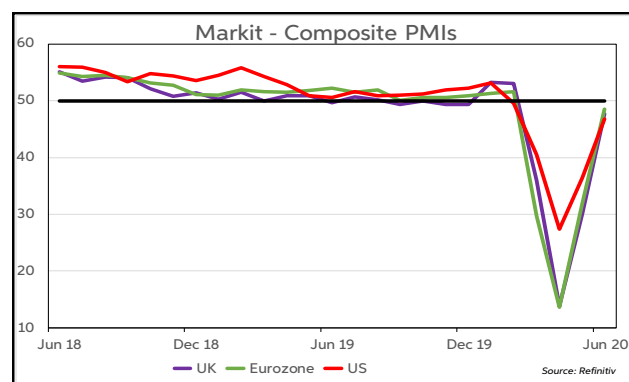


## Keeping Up Appearances

- The action on financial markets over recent days continued to illustrate the sensitivity of investor sentiment to Covid-19 newsflow.** Reports of progress on two potential vaccines for the virus helped to boost risk appetite around the mid-week point. On the other hand, the rising number of cases globally, including further spikes in the US which saw California re-impose some restrictions, acted as a headwind. Markets were also digesting the start of the Q2 corporate earnings season for insight into the impact of Covid-19, as well for guidance for the remainder of the year. Overall, these updates provided some supportive newsflow for risk sentiment. Data-wise, it was bit of a mixed bag of results from the macro diary. On the plus side, there were better than expected US industrial production and retail sales, Chinese Q2 GDP and UK labour market data. Meantime, UK GDP for May and Chinese retail sales data disappointed versus forecasts. Overall though, equity markets were in an optimistic mood, registering gains of between 1-2% on the week.
- In contrast, the tone from the July meeting of the ECB's Governing Council remained one of caution.** As expected, the central bank left its monetary policy unchanged, having only last month announced an increase to its Pandemic Emergency Purchase Programme (PEPP) from €750bn to €1,350bn. The central bank did acknowledge that there has been some signs of improvement in the Eurozone economy. It noted that high frequency and survey indicators bottomed out in April and have shown some signs of improvement in May and June, amid the easing of lockdown measures. However, it is still very cautious about the economic outlook given that activity remains well below pre-Covid levels, with the recovery uneven and partial in nature, while the "outlook remains highly uncertain".
- As a result, the ECB retains a bias to ease policy further if necessary, including in relation to the deposit rate and its QE purchases.** In terms of market expectations, futures contracts are suggesting a cut of 5-10bps in the deposit rate in 2021. Meantime, the first 10bps rate hike is not envisaged to happen till 2024. Of course, any additional policy easing from the ECB and other central banks will be very much dependent on how their respective economies recover in the second half of this year. The data for May and June were encouraging in this regard. However, there is a concern that this rebound may lose some momentum over the coming months in light of the high degree of uncertainty about how the pandemic will evolve, especially in relation to new spikes in cases and the risk that more regions may require the planned easing of restrictions to be paused. Some additional measures may even need to be re-imposed in order to contain the spread of the virus.
- This week a number of key survey releases for July will be scrutinized to assess if the improvement in activity has been maintained as the global economy starts the second half of the year.** In the Eurozone, the highlight is the flash print of the PMIs for July. The ongoing easing of Covid-19 restrictions is projected to see the composite index move back above the 50 threshold, with increases pencilled in for the manufacturing and service sector indices. Similarly, the outlook for the demand side of the economy also looks to have continued to improve, with the EC's measure of consumer confidence forecast to have remained on its upward trend this month.
- In the UK, flash PMIs for July will also feature.** As in the Eurozone, the composite index is expected to have risen above the 50 level in the month, driven by improvements in both the services and manufacturing sectors. A significant increase is anticipated in the former, in particular, following the lifting of a number of lockdown measures impacting the sector in the month. In terms of 'hard data' releases, the retail sales report for June is the main item of interest. Following a 12% increase in May, it is envisaged that retail expenditure rose by a further 8.5%. This reflects both the re-opening of non-essential shopping outlets and a partial rundown of forced savings built up through the lockdown.
- Across the Atlantic, there is a relatively quiet look to the macro schedule.** Although, the flash PMIs will be looked to for evidence of how the Covid outbreak in the South and West is impacting on activity and to what extent the re-opening of the North-Eastern states will be able to offset the potential weakness elsewhere. The general consensus is that the composite index likely moved higher in the month. However, the deteriorating Covid situation poses some downside risk to the forecast. The service sector index in particular may struggle to move much higher as it has been worse impacted by the re-imposition of restrictions and delays in the re-opening schedule. Meanwhile, the latest set of weekly initial jobless claims figures will be look to for evidence of the impact of the virus on the labour market. Lay-offs remain at an elevated level and there are increased concerns about the level of permanent job losses arising from the crisis.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2020	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	2020
EUR/USD	1.1429	1.12	1.13	1.14
EUR/GBP	0.9121	0.91	0.88	0.88
EUR/JPY	122.52	120	122	124
GBP/USD	1.2528	1.23	1.28	1.30
USD/JPY	107.19	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>	Haldane, Tenreyro (Monday); Haskel (Thursday)		
	<b>ECB Speakers:</b>	de Guindos, Lane (Monday); de Guindos (Tuesday); de Guindos (Wednesday); de Guindos (Friday)		
<b>Mon 20th</b>	<b>JPN:</b>	00.50 Trade Balance (June)	-¥838.2bn	-¥35.8bn
		- Exports	-28.3%	-24.9%
	<b>GER:</b>	07.00 PPI (June)	(-2.2%)	(-1.5%)
<b>Tue 21st</b>	<b>JPN:</b>	00.30 CPI (June)	(+0.1%)	(+0.3%)
	<b>UK:</b>	07.00 PSNB Ex-Interventions (June)	£55.2bn	£38.0bn
<b>Wed 22nd</b>	<b>JPN:</b>	01.30 Flash Jibun Bank Manufacturing PMI (July)	40.1	
	<b>US:</b>	15.00 Existing Home Sales (June)	3.91m / 9.7%	4.79m / +22.5%
<b>Thurs 23rd</b>	<b>GER:</b>	07.00 GfK Consumer Sentiment (August)	-9.6	-4.5
	<b>FRA:</b>	07.45 INSEE Business Climate (July)	77	83
	<b>UK:</b>	11.00 CBI Industrial Orders (July)	-58	
	<b>US:</b>	13.30 Initial Jobless Claims (w/e 18th July)	1,300,000	1,290,000
	<b>EU-19:</b>	15.00 Flash Consumer Confidence (July)	-14.7	-12.3
<b>Fri 24th</b>	<b>UK:</b>	00.01 GfK Consumer Confidence (July)	-30	-26
	<b>UK:</b>	07.00 Retail Sales (June)	+12.0% (-13.1%)	+8.5% (-6.2%)
	<b>FRA:</b>	08.15 Flash Markit Composite PMI (July)	51.7	53.0
	<b>GER:</b>	08.30 Flash Markit Composite PMI (July)	47.0	50.3
	<b>ITA:</b>	09.00 ISTAT Business Confidence (July)	79.8	
	<b>EU-19:</b>	09.00 Flash Markit Composite PMI (July)	48.5	51.3
		- Manufacturing / Services	47.4 / 48.3	49.5 / 51.5
	<b>UK:</b>	09.30 Flash Markit Composite PMI (July)	47.7	51.0
		- Manufacturing / Services	50.1 / 47.1	51.0 / 51.0
	<b>US:</b>	14.45 Flash Markit Composite PMI (July)	47.9	
		- Manufacturing / Services	49.8 / 47.9	51.3 / 50.2
	<b>US:</b>	15.00 New Home Sales (June)	0.676m / +16.6%	0.7m / +3.6%

◆ 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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