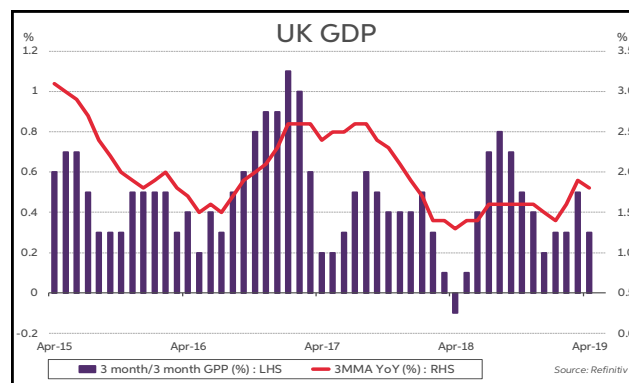


There Will Be Blood

- Something has to give in financial markets. Ten year government bond yields have fallen to record lows in Eurozone countries, led by an eye watering decline in German bund yields to -0.4%, the current ECB deposit rate.** Across the water, ten year Treasury yields have fallen by 125bps since last October. Meanwhile, stock markets continue to climb higher. The Euro Stoxx 50 is up 18% year-to-date. The S&P 500 is up by almost 20%, hitting record highs, with the FT reporting that it has just posted its best first half of the year performance since 1997.
- The fuel for the rally across multiple asset classes is the dovish soundings from central banks, who look to be lining up to cuts rates.** The Reserve Bank of Australia has already cut rates by 25bps twice in the past month, with the Bank of India also lowering rates recently. The market expects the Fed to cut rates by 25bps later this month despite June's very robust employment report, with 100bps of easing still being priced in by end-2020. The ECB is expected to cut rates by 10bps in the autumn and a further 10bps next year, bringing the deposit rate down to -0.6%. A 25bps rate cut by the Bank of England is priced in for next spring.
- Global economic activity has lost momentum in the past year, though much of the weakness in concentrated in manufacturing.** The rally in financial markets represents a substantial easing of monetary conditions, which should support growth going forward. Fixed income markets, though, do not expect rate cuts to start to be taken back until 2023, suggesting a couple of grim years ahead for the world economy. If they are right, there is a real risk that stock markets could be in for a sharp correction.
- On the other hand, the unemployment rates in the US and UK have declined to below 4%, their lowest levels in circa 50 years.** Meanwhile, the jobless rate in the Eurozone has fallen to 7.5%, close to multi-decade lows also. If growth does improve over the next year, it suggests that central banks will not deliver all the policy easing expected by markets and/or could unwind rate cuts rather quickly. Either way, bond yields would back up quite sharply. **Thus, it is hard to see both stock and bond markets sustaining their stunning gains. There is likely to be blood spilt in at least one of these markets before the year is out, and possibly lots of it.**
- Turning to the week ahead, the main UK release is the estimate of GDP for the 3-month period to end-May.** Leading indicators, such as the PMIs, suggest growth lost further momentum in May as the impact of the boost to activity linked to Brexit related stockpiling continued to unwind. The slowdown of the global economy also likely acted as a headwind. Overall, the forecast is for growth to have decelerated to just 0.1% in the period, from 0.3%. Meanwhile, industrial output is expected to rebound by 1.5% in May, having fallen by a sharp 2.7% in April, so the underlying trend is still weak.
- In the US, the macro calendar includes the June reading of CPI.** It is anticipated that lower oil prices compared to a year earlier will see the headline rate of inflation moderate to 1.6%, from 1.8%. At the same time, the core measure is projected to have held at 2%. Meanwhile, we will also get a monetary policy update this week in the form of the June FOMC meeting minutes. Markets will hope to gain further insights on the level of support amongst the FOMC members for an easing of policy in the near term. **On that note, the semi annual testimony of Fed Chair Powell to the US Congress' Senate Banking Committee and House Financial Services Panel will also bear close watching.**
- Elsewhere, the only Eurozone data due out of any note are industrial production figures for May.** The expectation is for 0.2% increase, which would leave the year-on-year growth rate firmly in negative territory. Meantime, the ECB will publish its account of its June policy meeting on Thursday. It will be interesting to see what discussion took place regarding a potential further easing of policy, given President Draghi's very dovish comments at the ECB conference in Sintra.
- Close to home, the first estimate of Q1 2019 GDP for the Irish economy is due,** though these data can be badly distorted by activities of some multi-national companies. The available indicators suggest that the economy continued to grow at a relatively strong pace in the quarter.



	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	1.1221	1.15	1.16	1.17
EUR/GBP	0.8976	0.90	0.88	0.87
EUR/JPY	121.67	122	122	123
GBP/USD	1.2496	1.28	1.32	1.36
USD/JPY	108.44	106	105	105

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Tenreyro (Wednesday)		
	ECB Speakers:	de Guindos (Tuesday); Coeure (Thursday)		
	Fed Speakers:	Bostic, Bullard, Powell (Tuesday); Bullard Powell (Wednesday); Barkin, Bostic, Kashkari, Barkin, Bostic, Kashkari, Powell , Williams (Thursday)		
Mon 8th	JPN: 00.50	Core Machinery Orders (May)	(+2.5%)	(-3.9%)
	JPN: 00.50	Economy Watchers' Poll (June)	44.1	
	GER: 07.00	Industrial Output (May)	-1.9%	+0.3%
	GER: 07.00	Trade Balance (May)	€17.0bn	€17.0bn
		- Exports	-3.7%	+0.5%
	EU-19: 09.30	Sentix Index (July)	-3.3	0.1
	US: 20.00	Consumer Credit (May)	\$17.5bn	\$16.0bn
Tue 9th	UK: 00.01	BRC Retail Sales (June)	-3.0%	
	ITA: 09.00	Retail Sales (May)	+0.0%	
	US: 11.00	NFIB Business Optimism (June)	105.0	
Wed 10th	JPN: 00.50	Domestic Wholesale Prices (June)	(+0.7%)	(+0.3%)
	FRA: 07.45	Industrial Output (May)	+0.4%	+0.5%
	ITA: 09.00	Industrial Output (May)	-0.7%	+0.1%
	UK: 09.30	GDP (3 months to May)	+0.3% (+1.3%)	+0.1% (+1.3%)
	UK: 09.30	Industrial Output (May)	-2.7% (-1.0%)	+1.5% (+1.2%)
		- Manufacturing	-3.9% (-0.8%)	+2.3% (+1.1%)
	UK: 09.30	Goods Trade Balance (May)	£12.11bn	£12.50
		- Non-EU	£4.60bn	£4.70bn
	IRL: 11.00	CPI (June)	-0.1% (+1.0%)	+0.3% (+1.1%)
	IRL: 11.00	Residential Property Prices (May)	+0.3% (+3.1%)	+0.3% (+2.7%)
	CAN: 14.00	Bank of Canada Interest Rate Decision	1.75%	1.75%
	US: 19.00	Minutes from the Fed's June Meeting Published		
Thurs 11th	UK: 00.01	RICS House Price Survey (June)	-10	-12
	GER: 07.00	Final HICP (June)	(+1.3%)	(+1.3%)
	FRA: 07.45	Final HICP (June)	(+1.4%)	(+1.4%)
	IRL: 11.00	GDP (Q1)	(+3.0%)	(+4.1%)
	EU-19: 12.30	ECB Account from June Meeting Published		
	US: 13.30	CPI (June)	(+1.8%)	(+1.6%)
		- Core (Ex-Food & Energy)	(+2.0%)	(+2.0%)
	US: 13.30	Initial Jobless Claims (w/e 1st July)	221,000	220,000
	US: 19.00	Federal Budget (June)	June '18: -\$75bn	
Fri 12th	EU-19: 10.00	Industrial Production (May)	-0.5%	+0.2%
	US: 13.30	PPI (June)	(+1.8%)	(+1.6%)

◆ 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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