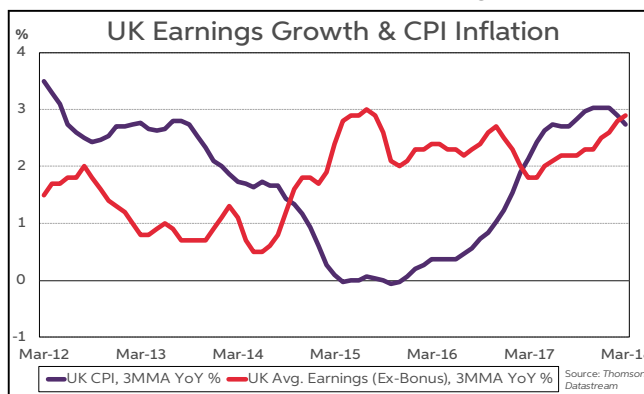


Caveat Emptor

- Volatility remains elevated in markets as investors continue to reassess and re-price risk, with risk aversion still very much to the fore.** After a brief spike upwards, ten year bund yields have fallen back to near 0.4%, despite signals from the ECB that it will call a halt to net asset purchases by the end of the year. Safe haven buying remains dominant. Markets which have been under pressure are not going to return to anywhere near previous levels as risk had become mispriced to start with. Many emerging markets will remain out of favour as recent events have highlighted financial vulnerabilities that have badly shaken investor confidence. Meanwhile, in Italy, bond spreads will need to remain wide to attract buyers. Notably, ten year Italian yields are back above 3%.
- Meantime, the dollar lost some ground in the past week after its strong rally in the previous two months, leaving markets wondering if it about to change direction once again.** We expect the US currency to stabilise in the near term. EUR/USD seems likely to trade in a \$1.16-1.20 range over the summer, given that \$1.16 is a formidable support level for the euro, while the short dollar positions in the market have been largely unwound. Even if the \$1.16 level gives way, there is further strong support for the euro nearby at around \$1.12-1.13. Overall then, we think that the major move upwards by the dollar against the euro during the last couple of months is largely over. Indeed, we would expect the euro to rise above \$1.20 later in the year as the ECB brings net asset purchases to an end and concerns re-emerge about the twin deficits in the US and that economy's growth prospects over the medium term.
- This week's calendar has a central bank theme to it.** The main focus will be on the Fed and ECB meetings, as no changes are expected from the BoJ. In terms of the Fed, the market has already fully discounted a rate hike this month, which would bring the Fed funds rate up to a 1.75%-2.0% range. Of more interest will be the Fed's updated interest rate projections. The Fed is currently guiding three hikes this year (already hiked by 25bps in March) which would take the rates up to a 2.0-2.25% range by year end. However, given the strength of the US economy, there is a distinct possibility that the Fed could hike four times in total (i.e. 25bps per quarter) in 2018. Futures contracts suggest that the market is currently pricing in about a 40% chance of this happening.
- Following last week's hawkish QE remarks from some key ECB decision makers, the ECB meeting will attract plenty of attention.** While the ECB may not announce any decisions this week, the meeting statement and President Draghi's press conference will be looked to for indications as to when the Governing Council will end its QE programme. Markets are of the view that the ECB will cease net asset purchases by the end of the year.
- Data-wise, the busiest schedule this week is in the UK.** The data will be assessed for further signs that the UK economy regained momentum in the second quarter after a very weak Q1. These releases include a raft of labour market updates (unemployment, employment and wage growth) and industrial production for April, as well as retail sales data for May. Meanwhile, CPI figures for May will be analysed to see if inflation continues to edge lower. Aside from the data, Brexit will remain in the headlines, with the House of Commons due to debate the Lords amendments to the EU Withdrawal Bill.
- There is also a relatively packed US data diary over the coming days.** Both industrial production and retail sales are expected to register solid monthly increases in May, while CPI inflation for May is forecast to maintain its upward trajectory. Meanwhile, consumer sentiment (University of Michigan measure) in June is likely to remain at a healthy level. **Elsewhere, the Eurozone schedule is very sparse, with no major releases due.**



| | Interest Rate Forecasts | | | |
|-------------|-------------------------|----------------|----------------|----------------|
| | Current | End Q2 2018 | End Q3 2018 | End Q4 2018 |
| Fed Funds | 1.625 | 1.875 | 2.125 | 2.375 |
| ECB Deposit | -0.40 | -0.40 | -0.40 | -0.40 |
| BoE Repo | 0.50 | 0.50 | 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 Q2 2018 | End Q3 2018 | End Q4 2018 |
| EUR/USD | 1.1762 | 1.18 | 1.20 | 1.22 |
| EUR/GBP | 0.8792 | 0.88 | 0.87 | 0.86 |
| EUR/JPY | 128.81 | 129 | 130 | 131 |
| GBP/USD | 1.3376 | 1.34 | 1.38 | 1.42 |
| USD/JPY | 109.47 | 109 | 108 | 107 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT+1) | Release | Previous | Forecast |
|-------------------|-------------------------|--------------------------------------|---|---|
| This Week: | | | | |
| Mon 11th | JPN: | 00.50 | Core Machinery Orders (April) | (-2.4%) (+3.9%) |
| | ITA: | 09.00 | Industrial Output (April) | +1.2% -0.6% |
| | UK: | 09.30 | Industrial Output (April) | +0.1% (+2.9%) +0.2% (+2.7%) |
| | UK: | 09.30 | - Manufacturing | -0.1% (+2.9%) +0.3% (+3.1%) |
| | UK: | 09.30 | Goods Trade Balance (April) | -£12.29bn -£11.35bn |
| | | | - Non-EU | -£3.64bn -£3.20bn |
| Tue 12th | UK | | House of Commons debates 'Lords' amendments to EU Withdrawal Bill | |
| | JPN: | 00.50 | Domestic Wholesale Prices (May) | +0.1% (+2.0%) +0.2% (+2.2%) |
| | UK: | 09.30 | Employment Growth (3 Months to April) | 197,000 124,000 |
| | | | - ILO Unemployment | 4.2% 4.2% |
| | UK: | 09.30 | Average Weekly Earnings (3 Months to April) | (+2.6%) (+2.6%) |
| | | | - Ex-Bonus | (+2.9%) (+2.9%) |
| | GER: | 10.00 | ZEW Economic Sentiment (June) | -8.2 -13.0 |
| | US: | 11.00 | NFIB Business Optimism (May) | 104.8 104.7 |
| | US: | 13.30 | CPI (May) | (+2.5%) (+2.7%) |
| | | | - Ex-Food & Energy | (+2.1%) (+2.2%) |
| Wed 13th | UK: | 09.30 | CPI (May) | (+2.4%) (+2.5%) |
| | | | - Ex-Food & Energy | (+2.1%) (+2.1%) |
| | UK: | 09.30 | PPI Output (May) | (+2.4%) (+2.9%) |
| | | | - Input | (+5.3%) (+7.6%) |
| | EU-19: | 10.00 | Employment (Q1) | +0.3% (+1.6%) |
| | EU-19: | 10.00 | Industrial Production (April) | +0.5% (+3.0%) -0.3% (+2.8%) |
| | IRE: | 11.00 | Residential Property Prices (April) | +0.7% (+12.7%) +0.5% (+12.9%) |
| | US: | 13.30 | PPI (May) | (+2.6%) (+2.8%) |
| | US: | 19.00 | Fed Funds Target Range Announcement | 1.50% - 1.75% 1.75% - 2.00% |
| | US: | 19.30 | Fed Press Conference | |
| Thurs 14th | UK: | 00.01 | RICS House Price Survey (May) | -8 -5 |
| | CHINA: | 03.00 | Industrial Output (May) | +7.0% +6.9% |
| | GER: | 07.00 | Final HICP (May) | (+2.2%) (+2.2%) |
| | FRA: | 07.45 | Final HICP (May) | (+2.3%) (+2.3%) |
| | UK: | 09.30 | Retail Sales (May) | +1.6% (+1.4%) +0.5% (+2.4%) |
| | IRE | 11.00 | New Dwelling Completions (Q1) | n/a |
| | EU-19: | 12.45 | ECB Refi Rate Announcement | 0.00% 0.00% |
| | | | - Deposit Rate | -0.40% -0.40% |
| | EU-19: | 13.30 | ECB Press Conference | |
| | US: | 13.30 | Import / Export Prices (May) | +0.3% / +0.6% +0.5% / +0.4% |
| | US: | 13.30 | Initial Jobless Claims (w/e 9th June) | 222,000 221,000 |
| | US: | 13.30 | Retail Sales (May) | +0.2% +0.4% |
| | | | - Ex-Autos | +0.3% +0.5% |
| | | - Ex-Gas, Autos & Building Materials | +0.5% +0.3% | |
| | JPN: | | BoJ Interest Rate Announcement | -0.1% - 0.0% -0.1% - 0.0% |
| Fri 15th | EU-19: | 10.00 | Final HICP (May) | (+1.9%) (+1.9%) |
| | | | - Ex-Food & Energy | (+1.3%) (+1.3%) |
| | EU-19: | 10.00 | Wage Growth (Q1) | (+1.7%) |
| | IRE: | 11.00 | Goods Trade Balance (April) | €4.0bn €4.5bn |
| | US: | 13.30 | NY Fed/Empire State Index (June) | 20.1 19.00 |
| | US: | 14.15 | Industrial Production (May) | +0.7% +0.3% |
| | | | - Capacity Utilisation | 78.0% 78.2% |
| | US: | 15.00 | Uni. of Michigan Consumer Sentiment (June) | 98 98.5 |

◆ 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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