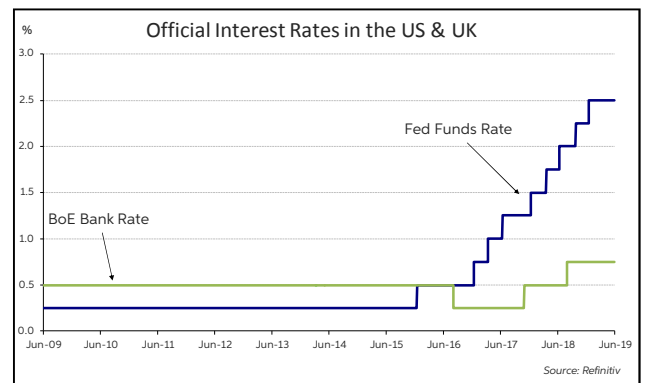


Joining the Dots

- Given the markets increasing focus on global monetary policy, the week ahead contains some key events, with central bank meetings in the US, UK and Japan.** Most market attention will focus on the Fed meeting and its projections for the likely path of interest rates. The last set of rate projections in March showed that the Fed expected to keep rates unchanged this year, before delivering one final 25bps hike in 2020. Markets, though, have become convinced that the Fed will have to cut rates this year. They are pricing in a rate cut as early as next month, to be followed by two further cuts later in the year and another rate cut in 2020.
- There is no doubt that Fed officials have softened their language on rate policy** recently on signs that the economy has lost some momentum in the second quarter and amid escalating trade wars involving the US. Activity in manufacturing and housing has weakened, while global growth has also slowed. However, consumer confidence remains strong, household spending is showing continued solid growth, while the labour market remains tight with the unemployment rate at 3.6%, a near fifty year low. Inflation, though, is below target and wage growth remains stable and moderate.
- Thus, the Fed faces a difficult balancing act** and is under increasing political and market pressure to deliver pre-cautionary rate cuts, starting this summer to ward of the risk of a sharp slowdown in activity. Indeed, there is a risk that if the Fed does not signal at this week's meeting that rates cuts are coming, there could be turmoil in markets that would add to the downside risks for the economy. It would be somewhat ironic, though, if just after the current US cycle becomes the longest expansion on record this month, the Fed starts to cut rates.
- The Bank of England is also in a bit of dilemma.** Recent comments from policymakers show that it retains a tightening bias in the face of a strong labour market and accelerating wage inflation. The BoE's Chief Economist wrote recently that "the time is nearing when a small rise in rates would be prudent". The markets don't think so, however, with futures contracts pricing in that UK rates will remain unchanged over the next few years. It is hard to see the BoE raising rates anytime soon, given signs that the economy is losing momentum again, and with on-going Brexit uncertainty set to continue as a headwind over the remainder of this year, against a backdrop of slower global growth. The same outcome (i.e. no change to policy) is expected from the BoJ meeting as it sticks with its current negative interest rate policy.
- Data-wise, in the US, there is a wide ranging set of updates due out for the economy this week.** The flash PMIs for June (composite, services and manufacturing) will bestow a good general barometer of how the economy is performing this month. The services index will receive close attention after it fell to its lowest (50.9) level since February 2016 in May, while the manufacturing PMI is at a 10-year low. Meanwhile, the regional Empire and Philly Feds surveys for June will provide additional updates for the production side of the economy. There is also a batch of housing market metrics due, including existing home sales (May), housing starts (May) and homebuilder sentiment (June).
- Meanwhile for the Eurozone, it is an important week in terms of survey data with the highlight being the flash PMIs (Eurozone, Germany and France) for June.** In the quarter so far, the Eurozone composite PMI has averaged a subdued 51.7, largely due to weakness in the manufacturing sector. This is broadly similar to its Q1 average (51.7). The consensus forecasts is for no major changes in the PMI surveys. The flash reading of the EC consumer confidence index for June is also due, with the expectation that it held near to its May level. Overall then, the raft of June survey data is likely to suggest that Eurozone growth remained subdued at the end of Q2.
- In the UK, there are two main releases of note over the coming days.** CPI inflation in April rose to 2.1%, above the BoE's 2% target for the first time since last December. This was largely due to the energy regulator increasing the price cap for certain utilities. The general view is that headline inflation eased back slightly in May. Meanwhile, the retail sales report for May is also scheduled for release. Sales were flat in April, although this did follow a strong 1.2% increase in March in the lead up to the original Brexit date. The consensus forecast is that spending on the high street was weak in May with a fall being pencilled in.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2019			
Fed Funds	2.375	2.375	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
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 Q2	End Q3	End Q4
	2019			
EUR/USD	1.1239	1.12	1.13	1.14
EUR/GBP	0.8904	0.89	0.89	0.89
EUR/JPY	121.82	123	123	123
GBP/USD	1.2621	1.26	1.27	1.28
USD/JPY	108.38	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	ECB Speakers:	Draghi (Monday); Draghi , deGuindos, Lane (Tuesday); Lautenschlager, Coeure (Wednesday)		
Mon 17th	EU-19:	10.00 Wage Growth (Q1)	(+2.3%)	(+2.6%)
	US:	13.30 NY Fed / Empire State Index (June)	17.80	12.00
	US:	15.00 NAHB Homebuilders' Sentiment (June)	66	66
Tue 18th	GER:	10.00 ZEW Economic Sentiment Index (June)	-2.1	-6.0
	EU-19	10.00 Final HICP (May)	(+1.2%)	(+1.2%)
		- Ex-Food & Energy	(+1.0%)	(+1.0%)
	US:	13.30 Housing Starts (May)	+5.7% / 1.235m	+0.2% / 1.238m
		- Building Permits	+0.2% / 1.29m	0.0% / 1.29m
Wed 19th	JPN:	00.50 Trade Balance (May)	¥60.4bn	¥-979.2bn
		- Exports	-2.4%	-7.7%
	UK:	09.30 CPI (May)	(+2.1%)	(+2.0%)
		- Ex-Food & Energy	(+1.8%)	(+1.7%)
	UK:	09.30 PPI Output (May)	(+2.1%)	(+1.7%)
		- Input	(+3.8%)	(+0.7%)
	EU-19:	10.00 Construction Output	-0.3%	
	US:	19.00 Fed Interest Rate Announcement	2.25%-2.50%	2.25%-2.50%
	US:	19.30 Fed Press Conference		
Thurs 20th	JPN:	03.00 BoJ Interest Rate Announcement	-0.10%	-0.10%
	UK:	09.30 Retail Sales (May)	+0.0% (+5.2%)	-0.5% (+2.7%)
	UK:	12.00 BoE Interest Rate Announcement	0.75%	0.75%
		- Meeting Minutes		
	US:	13.30 Initial Jobless Claims (w/e 15th June)	222,000	2220,000
	US:	13.30 Philly Fed Index (June)	16.6	11.5
	US:	15.00 Leading Indicators Index (May)	-0.1%	0.1%
	EU-19:	15.00 Flash Consumer Confidence (June)	-6.5	-6.5
Fri 21st	JPN:	00.30 CPI (May)	(+0.9%)	(+0.8%)
	JPN:	01.30 Flash Nikkei Manufacturing PMI (June)	49.8	
	FRA:	08.15 Flash Markit Composite PMI (June)	51.2	51.2
	GER:	08.30 Flash Markit Composite PMI (June)	52.6	52.5
	EU-19:	09.00 Flash Markit Composite PMI (June)	51.8	51.7
		- Manufacturing / Services	47.7 / 52.9	48.0 / 52.9
	UK:	09.30 PSNB Ex-Interventions (May)	£5.83bn	£4.15bn
	US:	14.45 Flash Markit Composite PMI (June)	50.9	50.9
		- Manufacturing / Services	50.5 / 50.9	50.4 / 50.9
	US:	15.00 Existing Home Sales (May)	-0.4% / 5.19m	+1.2% / 5.25m

◆ 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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