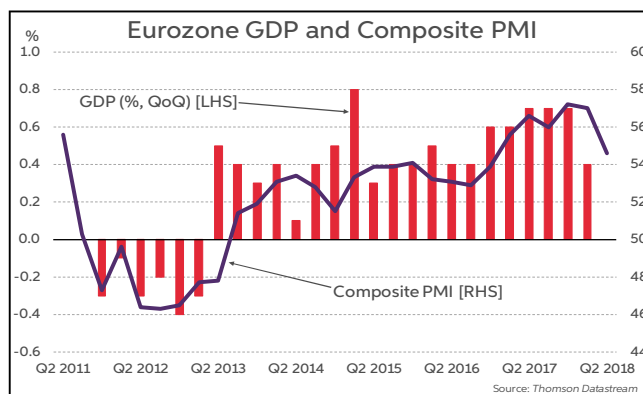


It's all about the money, money, money

- The action on currency markets last week highlighted their sensitivity to even marginal changes in forward guidance on interest rates.** First up, we had the US Fed increasing interest rates as expected by 25bps to a target range of 1.75%-2.0%. Fed Chair Powell noted that the economy was “doing very well”. Given the strong macro backdrop underpinning the economy, the Fed not unexpectedly added in an additional rate hike for 2018 (total now at four). **Even though the Fed left its end 2020 rate projection unchanged at 3.375%, the dollar still made significant gains** in the following couple of days against all the major currencies, helped also by strong US data.
- Meanwhile, the euro registered sharp falls following the ECB meeting,** even though the central bank surprised markets somewhat by announcing a date for an end to quantitative easing. Of more interest to markets was the guidance from the ECB that interest rates would remain as their current very low levels until at least September 2019. Markets had thought that rates could begin to rise from around the middle of next year. Euribor futures contracts rallied by about 10bps, with bond yields declining by around 10bps also. The euro fell sharply, though **we would expect support for the single currency at the \$1.15-1.16 level against the dollar to hold.**
- In terms of the week ahead, monetary policy will remain in the market spotlight, with the Bank of England policy meeting for June, as well as the ECB global forum on ‘Central Banking’.** No changes to interest rate policy are expected from the BoE. At its May meeting, the MPC gave no strong indication as to when the Bank would next raise interest rates. The BoE did emphasise, though, that it was not overly concerned about the weak first quarter in the UK economy, which it viewed as temporary. Meanwhile, it also indicated that it was content with the markets view of three hikes over the next three years. Based on futures contracts, the market has a 25bps hike fully priced in by end year. Therefore, the meeting statement and minutes will be assessed for indications as to when this rate increase might occur.
- On the data front, the main interest will be the flash PMI survey data out of the Eurozone for June.** The key composite PMI disappointed to the downside of expectations in May, falling for a fourth consecutive month and in the process reaching an 18-month low of 54.1. This still represents a solid reading, though, and the index is expected to be little changed in June.
- Aside from the PMIs, we also get the flash reading of the EC consumer sentiment index for June. The index dipped modestly in May (from 0.3 to 0.2). Consensus forecasts are for a further deterioration in household confidence in June. **Overall, this week's survey data are likely to reinforce the view that although growth looks to have peaked in the Eurozone, the economy is continuing to expand at a relatively solid pace.**
- Meantime, in the US, the release of the flash PMIs for June will provide a useful economy-wide look at the end of Q2.** There is also a housing theme to this week's diary. This includes homebuilder sentiment for June, an update on actual building activity, with housing starts for May due, while existing home sales data for May also feature.
- In the UK, the data calendar is very sparse,** with only public finance data for May and the CBI Industrial orders survey for June being released. **There is an important piece of Irish macro data due in the form of the labour force survey for Q1.** This should confirm that strong employment growth has extended into this year and the unemployment rate remains on a firm downward trajectory.



	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	1.1613	1.18	1.20	1.22
EUR/GBP	0.8747	0.88	0.87	0.86
EUR/JPY	128.41	129	130	131
GBP/USD	1.3273	1.34	1.38	1.42
USD/JPY	110.53	109	108	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Draghi (Monday, Tuesday & Wednesday); Praet, Nouy (Tuesday); Lautenschlager, Coeure (Wednesday)		
	Fed Speakers:	Dudley, Bostic (Monday); Bullard (Tuesday) Powell (Wednesday); Kashkari (Thursday)		
Mon 18th		ECB Forum on Central Banking 18th-20th		
	JPN: 00.50	Trade Balance (May) - Exports	¥626.0bn (+7.8%)	-¥235.0bn (+7.5%)
	US: 15.00	NAHB Homebuilders' Sentiment (June)	70	70
Tue 19th	EU-19: 09.00	Current Account Balance (April)	€32.0bn	
	US: 13.30	Housing Starts (May) - Permits	-3.7% / 1.287m s.a.a.r. -1.8% / 1.364m s.a.a.r.	+2.5% / 1.320m -0.5% / 1.356m
Wed 20th	GER: 07.00	PPI (May)	(+2.0%)	(+2.6%)
	UK: 11.00	CBI Industrial Orders Survey (June)	-3	+2
	IRL: 11.00	Labour Force Survey Employment (Q1)	(+3.1%)	(+2.6%)
	US: 15.00	Existing Home Sales (May)	-2.5% / 5.46m s.a.a.r.	+1.5% / 5.54m
Thurs 21st	FRA: 07.45	INSEE Business Climate (June)	109	108
	UK: 09.30	PSNB Ex-Interventions (May)	May'17: £6.96bn	£6.20bn
	UK: 12.00	BoE Interest Rate Announcement	0.50%	0.50%
	US: 13.30	Initial Jobless Claims (w/e 16th June)	218,000	223,000
	US: 13.30	Philly Fed Index (June)	34.4	28.0
	US: 15.00	Leading Indicators Index (May)	+0.4%	+0.4%
	EU-19: 15.00	Flash EC Consumer Confidence (June)	0.20	-0.10
Fri 22nd	JPN: 00.30	CPI (May)	(+0.6%)	(+0.6%)
	FRA: 08.00	Flash Markit Composite PMI (June)	54.2	54.1
	GER: 08.30	Flash Markit Composite PMI (June)	53.4	53.5
	EU-19: 09.00	Flash Markit Composite PMI (June) - Manufacturing / Services	54.1 55.5 / 53.8	53.9 55.1 / 53.6
	BEL: 14.00	NBB Leading Business Indicator (June)	0.2	0.0
	US: 14.45	Flash Markit Composite PMI (June) - Manufacturing / Services	56.6 56.4 / 56.8	56.5 56.7 / 56.6

◆ 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

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, plc and Allied Irish Banks (GB). In Northern Ireland it is distributed by First Trust Bank. In the United States of America it is distributed by Allied Irish Banks, plc. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and First Trust Bank are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI 018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.