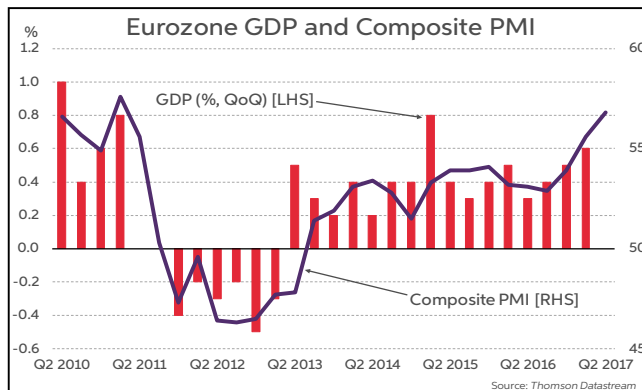


## Politics remains key focus

- Over the last fortnight, we have had updates from three of the key central banks. **In contrast to the overall dovish tone from the ECB meeting two weeks ago, this week's Federal Reserve and Bank of England updates were on the hawkish side.** As expected, the Fed increased the target range for the fed funds rate by 25bps to 1-1.25%. The Fed's rate projections show that it expects rates to rise to near 3% by end 2019. However, markets expect rates to rise to just below 2%. The Fed also gave strong indications that it intends to start the process of gradually reducing its balance sheet before end year—another form of policy tightening.
- Meantime, **while the Bank of England kept rates on hold, in line with market expectations, the voting breakdown, which showed three votes in favour of a hike (vs five for no change), was a surprise.** The market had been anticipating only one hawkish vote. It is clear from the minutes that there is increasing concern/focus on the evolving inflation outlook, with the recent higher than expected readings resulting in the MPC stating that its "tolerance of above target inflation" had been "reduced". **UK futures contracts suggest that the market is expecting that a rate hike could now occur towards end-2018/early 2019.**
- Currency market reaction to the updates has been relatively muted.** While the dollar and sterling traded higher in the immediate aftermath of their respective central bank meetings, the main FX pairs ended the week near where they started it. **One reason for this is that politics is still a key focus for markets.** In the US, given the current difficulties of the Trump administration there is increasing scepticism about the extent of the fiscal policy measures that the President will be able to introduce. For the dollar to regain some upward momentum more progress on the fiscal policy front is likely to be needed. For sterling, while the recent soundings from some key UK politicians have raised hopes for a 'soft' Brexit, negotiations only get underway this week and are fraught with difficulties. How these talks develop could be a key factor influencing sterling in the period ahead.

- After a couple of busy weeks which were dominated by central bank and political events, the main calendar items in the week ahead are on the data front.** Most of the main releases come in the Eurozone, with a raft of important leading indicators for June due. These will be looked to for insight into the overall growth performance of the economy in Q2. **The flash Markit composite PMI is forecast to have held close to May's 6-year high. Based on past performance, such an outcome would be consistent with quarterly Eurozone GDP growth of around 0.8% after Q1's already very encouraging 0.6% rise.**



- Meanwhile, **flash EC Eurozone consumer confidence is expected to improve further.** It recorded its strongest level in 10 years in May, suggesting firmer consumer spending. National level surveys have also improved recently. The French INSEE and Belgian NBB indices look set to remain at solid levels in June.
- Survey data also feature in the US, with the June flash PMIs due.** The manufacturing PMI has continued to soften recently, averaging 52.8 in April/May, versus 54.2 in Q1. However, the services index has been more positive, averaging 54.1 after Q1's 53.4. Both indices are forecast to improve slightly in June. **Overall, the PMIs suggest a more positive performance from the US economy in Q2.** We also get updates on the US housing market in the form of existing and new home sales data for May.
- There is a sparse calendar in the UK. Public finance data for May is the main release.** The deficit rose sharply at the start of the financial year in April, as weak consumer spending depressed VAT receipts. The deficit is expected to have narrowed in May compared to a year earlier. The calendar also includes CBI orders for June.

	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2017	2017	2017	2017
Fed Funds	0.875	1.125	1.375	1.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.25	0.25	0.25	0.25
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
	2017	2017	2017	2017
EUR/USD	1.1192	1.12	1.10	1.08
EUR/GBP	0.8754	0.87	0.86	0.86
EUR/JPY	123.95	124	124	124
GBP/USD	1.2783	1.29	1.28	1.26
USD/JPY	110.75	111	113	115

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lautenschläger (Monday); Cœuré (Tuesday)		
	<b>Fed Speakers:</b>	Evans (Monday); Rosengren (Tuesday); Mester (Friday)		
<b>Mon 19th</b>	<b>UK/EU-19:</b>	<b>Brexit Negotiations Begin</b>		
	<b>JPN:</b> 00.50	Trade Balance (May) - Exports	¥481.7bn (+7.5%)	¥76.0bn (+16.1)
<b>Tue 20th</b>	<b>GER:</b> 07.00	PPI (May)	+0.4% (+3.4%)	-0.1% (+2.9%)
	<b>EU-19:</b> 09.00	Current Account (April)	€34.1bn	
<b>Wed 21st</b>	<b>UK:</b> 09.30	PSNB Ex-Interventions (May)	£10.37bn	£6.70bn
	<b>US:</b> 15.00	Existing Home Sales (May)	-2.3% / 5.57m s.a.a.r.	-0.5% / 5.54m
<b>Thurs 22nd</b>	<b>FRA:</b> 07.45	INSEE Business Climate (June)	109	109
	<b>UK:</b> 11.00	CBI Industrial Orders (June)	9	7
	<b>US:</b> 13.30	Initial Jobless Claims (w/e 17th June)		
	<b>EU-19:</b> 15.00	Flash EC Consumer Confidence (June)	-3.30	-3.00
<b>Fri 23rd</b>	<b>FRA:</b> 05.45	GDP (Q1: Final Reading)	+0.4% (p)	+0.4%
	<b>FRA:</b> 08.00	Flash Markit Composite PMI (June)	56.9	56.7
	<b>GER:</b> 08.30	Flash Markit Composite PMI (June)	57.4	57.2
	<b>EU-19:</b> 09.00	Flash Markit Composite PMI (June) - Manufacturing / Services	56.8 57.0 / 56.3	56.7 56.8 / 56.2
	<b>ITA:</b> 09.00	Industrial Orders (April)	-4.2% (+9.2%)	
	<b>BEL:</b> 14.00	NBB Leading Business Indicator (June)	-1.1	-0.9
	<b>US:</b> 14.45	Flash Markit Manufacturing PMI (June) - Services	52.7 53.6	53.0 53.9
	<b>US:</b> 15.00	New Home Sales (May)	-11.4% / 0.569m s.a.a.r.	+5.7% / 0.600m

◆ 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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