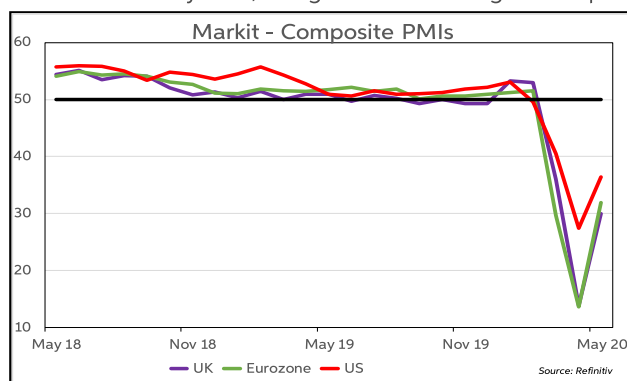


## The Empire Strikes Back

- Perhaps the most interesting takeaway from this week's BoE meeting was buried deep in the MPC minutes.** The BoE's Chief Economist, Andy Haldane, noted that the recovery in UK demand and output was "occurring sooner and materially faster" than had been expected previously. He added that while they were still material downside risks, the risks were more evenly balanced than in May. The stronger than expected data were sufficient to see Mr Haldane vote against increasing the size of the BoE QE programme at the meeting. He was prepared instead to see net asset purchases end in July. This is some turnaround from a month ago, when Mr Haldane was pondering that the BoE may need to move rates into negative territory.
- Retail spending in particular is rebounding everywhere at a much quicker than expected pace.** Sales rose by 12% in May in the UK, with non-food sales up a whopping 23.7%, even though non-essential retailers did not open until mid-June. Australian retail sales surged by 16.3% in May, almost fully reversing their 17.7% decline in April, leaving them up 5.3% yoy. Early indications from credit card data and some preliminary official estimates suggest Eurozone consumer spending picked up in May also. Meantime in the US, May saw total retail sales rebound by almost 18%, more than double the consensus forecast, with broad strength in spending. There was also a surprise rise in US non-farm payrolls in May, given the employment data are collected relatively early in the month. Meanwhile, mortgage applications are surging in the US which seems to have helped the NAHB homebuilder survey rise a record 21 points in June to 58, well ahead of expectations. The Philly Fed Survey for June was also unexpectedly strong, with the index bolting to +27.5 from -43.1 in May.
- The income support measures provided to households during the lockdowns are a key reason why the bounce back in consumption is exceeding expectations.** Household savings soared during the lockdowns because of the restrictions on spending. This was most evident in the unprecedented rise in the personal savings ratio in the US to 33% in April. This highlights the importance of sustaining household incomes as lockdown restrictions are eased, either through a strong rebound in employment levels or continuing enhanced government income support measures. Governments in Europe are extending these support measures, but there is considerable doubt if Congress will do so in the US.
- Some sectors of economies are also going to struggle to recover while the virus and associated social distancing restrictions persist, such as hospitality, travel and live entertainment.** Many businesses in these sectors will need support for a period of time to survive. Scarring effects in terms of high levels of permanent job losses and business failures would undermine the recovery. The coronavirus is also proving more persistent than expected, with second waves emerging, leading to the re-imposition of restrictions. So while the data may be printing ahead of expectations right now, there is no guarantee this will continue. Both fiscal and monetary policy need to remain supportive to sustain the recovery in activity and restore economies to a sound footing.
- Looking ahead to this week, there is a busy data schedule to the US calendar.** The data are spread across the key sectors of the economy, covering both May and June. Therefore, the macro indicators will provide a further useful insight into the extent of the rebound in activity as restrictions are eased. On the production/business activity side, we get the durable goods report for May, with headline orders forecast to recover some lost ground after falling by over 17% in May. Meanwhile, the flash PMI's for June will give a more timely update, with both the manufacturing and services expected to show further improvement, getting back closer to the key '50' breakeven level between expansion and contraction.
- Meanwhile, on the key consumer side, which accounts for around 70% of the US economy, personal income and spending metrics for May are due.** Household spending is being pencilled in for a 9% increase from April levels. As part of this release, we also get Core PCE data, the Fed's preferred measure on inflation. Last, but not least from the US diary is data on homebuyer activity last month, with both existing and new home sales figures being released.
- This week's macro agenda for the Eurozone is very much dominated by survey data for June.** The highlight is the flash PMI's for the Eurozone, Germany and France. The flash reading of the EC measure for consumer confidence for the Eurozone as well as other national level survey data, including the German Ifo, French INSEE and Italian ISTAT are also out. All the surveys are expected to register further improvement in June, while still remaining at relatively subdued levels.
- In the UK, the main release of note is also the flash PMI's for June.** Similar, to elsewhere, this survey data will be assessed for signs that the UK economy is starting to experience a rebound in activity. CBI data for the retail sector will be of interest as well.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2020			
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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
	2020			
EUR/USD	1.1241	1.12	1.13	1.13
EUR/GBP	0.9063	0.90	0.92	0.88
EUR/JPY	120.15	122	123	123
GBP/USD	1.2404	1.21	1.23	1.28
USD/JPY	106.87	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	deGuindos (Monday);		
	<b>Fed Speakers:</b>	Kashkari (Monday); Evans (Wednesday);		
<b>Mon 22nd</b>	<b>UK:</b>	11.00 CBI Industrial Orders (June)	-62	
	<b>US:</b>	13.30 National Activity Index (May)	-16.74	
	<b>US:</b>	15.00 Existing Home Sales (May)	4.33m / -17.8%	4.20m / -2.3%
	<b>EU-19:</b>	15.00 Flash Consumer Confidence (June)	-18.8	-15
<b>Tue 23rd</b>	<b>JPN:</b>	01.30 Flash Jibun Bank Manufacturing PMI (June)	38.4	
	<b>FRA:</b>	08.15 Flash Markit Composite PMI (June)	32.1	47.0
	<b>GER:</b>	08.30 Flash Markit Composite PMI (June)	32.3	44
	<b>EU-19:</b>	09.00 Flash Markit Composite PMI (June)	31.9	41.0
		- Manufacturing / Services	39.4 / 30.5	43.8 / 40.5
	<b>UK:</b>	09.30 Flash Markit Composite PMI (June)	30.0	41.0
		- Manufacturing / Services	40.7 / 29.0	45.3 / 39.5
	<b>US:</b>	14.45 Flash Markit Composite PMI (June)	37.0	43.5
		- Manufacturing / Services	39.8 / 37.5	44.0 / 43.7
	<b>US:</b>	15.00 New Home Sales (May)	0.623m / +0.6%	0.634m / 2.0%
<b>Wed 24th</b>	<b>FRA:</b>	07.45 INSEE Business Climate (June)	70	78
	<b>GER:</b>	09.00 Ifo Business Climate (June)	79.5	85
<b>Thurs 25th</b>	<b>GER:</b>	07.00 GfK Consumer Sentiment (July)	-18.9	-13.5
	<b>UK:</b>	11.00 CBI Distributive Trades (June)	-50	
	<b>US:</b>	13.30 Durable Goods Orders (May)	-17.7%	10.3%
	<b>US:</b>	13.30 GDP (Q1: Final Reading)	-5.0% s.a.a.r.	-5.0% s.a.a.r.
	<b>US:</b>	13.30 Advance Goods Trade Balance (May)	-\$70.73bn	
	<b>US:</b>	13.30 Initial Jobless Claims (w/e 15th June)	1,508,000	1,275,000
<b>Fri 26th</b>	<b>EU-19:</b>	09.00 M3 Annual Growth (May)	(+8.3%)	(8.5%)
	<b>ITA:</b>	10.00 ISTAT Business Confidence (June)	71.2	80.0
	<b>US:</b>	13.30 Personal Income / Consumption (May)	+10.5% / -13.6%	-6.0% / 9.0%
		- Core PCE Prices	(+1.0%)	(+0.9%)
	<b>US:</b>	15.00 Final Michigan Consumer Sentiment (June)	78.9 (p)	79.0

◆ 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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