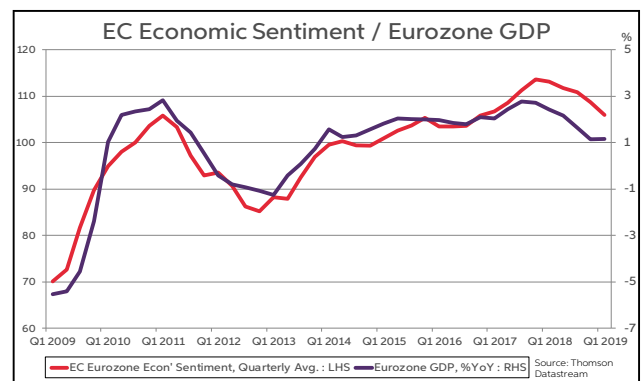


Doves of a feather flap together

- Another week of dovish sounds from central bankers triggering further gains in financial markets**, with bond yields in Europe reaching all-time lows and the US S&P 500 stock market index hitting all-time highs. Both the Fed and ECB delivered strong indications that policy easing is in the pipeline, possibly as early as next month. The Bank of England appears to have canned plans for any near-term hikes. The BoJ is set to continue easing policy via QE, while another rate cut seems likely from the Reserve Bank of Australia.
- With the global economy performing well in the first quarter, central banks are getting out in front in terms of loosening policy to ward off risks of a significant weakening in global growth.** Certainly, any policy easing from the Fed would seem to be a pre-emptive strike, as it left its growth and inflation forecasts largely intact at this month's meeting. GDP is seen as growing at circa 2% in the next couple of years, which is pretty solid for an economy at full employment. Rate cuts, then, are an insurance policy to ensure the expansion is sustained. The Fed expects to take them back at a later stage, as it sees rates returning to their current levels in 2021.
- The ECB, though, has been more spooked by falling inflationary expectations.** Mr Draghi emphasised in his comments this week that the ECB may need to provide further stimulus to get inflation to move up towards its 2% medium-term target. Inflation in the Eurozone has remained persistently below target in recent years. Inflationary expectations are also falling as the economy loses momentum. The five year on five year measure of forward inflation expectations has fallen to around 1.2% recently, from circa 1.7% last year. One has the wonder, though, how some additional monetary easing will achieve what very loose monetary conditions have failed to do for inflation in recent years.
- Indeed, it could be argued that the 2% target is too high to be met in this era of super low inflation.** An overly accommodative monetary policy of very negative interest rates and large scale QE creates its own risks, such as inflated asset values, market imbalances and distortions, mispricing of risk and severely penalises savers. Furthermore, it leaves monetary policy neutered in terms of responding to a sharp downturn in activity.
- With the Fed in data watching mode as it contemplates its next policy move, this week's US diary will provide some broad coverage of how the economy is performing in Q2.** On the producer/business side of things, the durables goods report will give some useful insight. The headline number fell by 2.1% in April, while the core capital goods orders component (proxy for business investment plans) declined by 1%. The expectation is that the May report will show flat orders, consistent with a picture of an economy that has moved onto a slower growth trajectory.
- Meanwhile, on the all important consumer side of the US economy, personal income and consumption stats for May feature.** The consensus view is that both spending and income will register further solid increases. The release also includes the May reading of the Fed's preferred measure of inflation—core PCE— which is likely to remain well below the 2% target. There is also a more timelier update from the household sector, with the Conference Board measure of consumer confidence for June out. After reaching a six month high in May, sentiment is expected to remain elevated. There are some releases on the housing market as well, with new home sales (May) and house prices (April) due.
- In the Eurozone, following Friday's flash PMI data we get another batch of important June survey data.** This includes the EC sentiment indices. The headline economic sentiment index offered some encouragement in May, rising unexpectedly for the first time since June 2018. The index is forecast to have fallen slightly this month. At a national level, the German Ifo is expected to remain indicative of an economy that has lost momentum in the quarter. Meantime, the flash HICP data for June are likely to show that inflation remains far below the ECB's 2% target.
- Data-wise, the UK schedule is very uneventful.** The final estimate of GDP for Q1 is expected to confirm that the economy grew by 0.5% in the quarter. The CBI distributive trades data for June will give an early read on how spending on the high street fared this month. The May number for seasonally adjusted sales was a 10 year low.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2019	2019	2019	2020
Fed Funds	2.375	2.375	2.125	2.125
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 Q3	End Q4	End Q1
	2019	2019	2019	2020
EUR/USD	1.1301	1.13	1.14	1.15
EUR/GBP	0.8919	0.89	0.89	0.89
EUR/JPY	121.47	123	123	123
GBP/USD	1.2667	1.27	1.28	1.29
USD/JPY	107.48	109	108	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Carney, Cunliffe, Saunders (Wednesday)		
	ECB Speakers:	De Guindos (Tuesday)		
	Fed Speakers:	Williams, Powell , Bastic, Barkin, Bullard (Tuesday);		
Mon 24th	GER: 09.00	Ifo Business Climate (June)	97.9	97.3
	US: 13.30	National Activity Index (May)	-0.45	
Tue 25th	FRA: 07.45	INSEE Business Climate (June)	104	103
	UK: 11.00	CBI Distributive Trades (June)	-27	-10
	US: 14.00	Case-Shiller House Prices (April)	+0.1% (+2.7%)	+0.2% (+2.6%)
	US: 15.00	Consumer Confidence (June)	134.1	132
	US: 15.00	New Home Sales (May)	-6.9% / 0.673m	+1.8% / 0.675m
Wed 26th	GER: 07.00	GfK Consumer Sentiment (July)	10.1	10.0
	US: 13.30	Durable Goods (May)	-2.1%	0.0%
	US: 13.30	Advance Goods Trade Balance (May)		
Thurs 27th	ITA: 09.00	ISTAT Business Confidence (June)	102	101
	ITA: 09.00	Consumer Confidence (June)	111.8	111.3
	EU-19: 10.00	Business Climate (June)	0.3	0.22
	EU-19: 10.00	EC Economic Sentiment Index (June)	105.1	104.6
		- Industrial / Services / Consumer	-2.9 / 12.2 / -7.2	-3.1 / 12.1 / -7.2
	GER: 13.30	Preliminary HICP (June)	(1.3%)	(1.4%)
	US: 13.30	GDP (Q1: Final Reading)	+3.1% s.a.a.r.	+3.2% s.a.a.r.
	US: 13.30	Initial Jobless Claims (w/e 22nd June)	216,000	218,000
	US: 15.00	Pending Home Sales (May)	-1.5%	+0.9%
Fri 28th	JPN: 00.30	Unemployment / Jobs: Applicants (May)	2.4% / 1.63	2.4% / 1.63
	JPN: 00.50	Preliminary Industrial Output (May)	+0.6%	+0.7%
	FRA: 07.45	Consumer Spending (May)	+0.8%	
	FRA: 07.45	Preliminary HICP (June)	(+0.9%)	(+1.1%)
	UK: 09.30	GDP (Q1: Final Reading)	+0.5% (+1.8%)	+0.5% (+1.8%)
	ITA: 10.00	Preliminary HICP (June)	(+0.9%)	(+0.7%)
	EU-19: 10.00	Preliminary HICP (June)	(+1.2%)	(+1.2%)
	IRE 11.00	Retail Sales (May)	+2.1% (+4.0%)	+0.5% (+3.6%)
	US: 13.30	Personal Income / Consumption (May)	+0.5% / +0.3%	+0.3% / +0.4%
		- Core PCE Prices	(+1.6%)	(+1.6%)
	US: 15.00	Final Michigan Consumer Sentiment (June)	97.9	97.9

◆ 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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