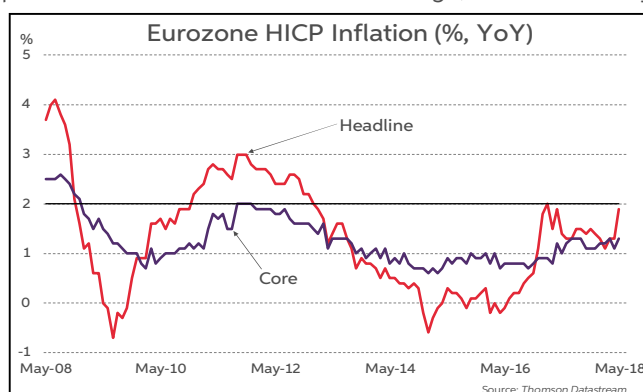


Tricky conditions

- **The latest data on economic activity have been encouraging.** This includes strong retail sales for May in the UK, good Eurozone PMIs for June and an array of upbeat figures for the US economy in May. **The recent key central bank meetings also sounded optimistic on growth prospects. Risk aversion, though, remains to the forefront on markets, with some renewed signs of weakness on stock markets recently.** Meanwhile, German bond yields have fallen further, with ten year bunds now below 0.35%, compared to 0.65% a month ago.
- **Both the IMF and OECD recently reaffirmed their forecasts for the world economy to grow by close to 4% in 2018 and 2019. However, the downside risks to these forecasts are mounting.** Of particular concern are the difficulties being experienced by a growing number of large emerging economies, including Argentina, Brazil, Turkey, Indonesia and South Africa. The appreciation of the dollar and tightening monetary conditions, as QE is wound down and US rates rise, have exposed financial vulnerabilities in developing countries with high foreign currency debt levels and weak balance of payments, putting pressure on their currencies and economies. Domestic political uncertainty is adding to the difficulties in some cases.
- Meanwhile, **markets are also being unnerved by escalating global trade tensions** as more and more tariffs are imposed, while there has also been a deterioration in relations between many countries, including within the EU. There has been **a rise in populism, nationalism and anti-immigration policies in many countries.** At the same time, **little progress has been made in the Brexit negotiations recently.** It is hard to say with certainty the extent to which all of these factors will impact on economic activity, but markets remain very cautious. It will take a run of good economic data and a dialling down of geo-political tensions for risk aversion to subside in markets.
- **In terms of the week ahead, with the latest cycle of major central bank meetings finished, the focus of the calendar will revert back to the macro data. Most of the main releases are scheduled in the Eurozone.** The EC sentiment indices for June are due. The headline Economic Sentiment index is anticipated to soften, though last week's firmer PMI data suggest there may be some upside risk to this forecast. Overall though, the main survey indicators suggest that growth in the Eurozone remains more modest. At a national level, the influential German Ifo is expected to edge down to a new over one year low.
- **Meanwhile, the Eurozone flash HICP for June is also due.** Headline inflation rose to 1.9% in May, primarily as a result of higher oil prices. However, core inflation (ex-food and energy) remained modest at 1.3%. Headline inflation look set to have moved up to 2% in June, though the underlying measure, which remains the main focus for the ECB, is seen at just 1.3%.
- **The Fed's preferred core-PCE inflation measure is the main release in the US.** Inflation has picked up to 1.8%, near the Fed's 2% target rate. It is expected to edge up to 1.9% in May, helping to support the FOMC's more hawkish outlook. Meantime, given the slowdown in consumer spending in Q1, markets will be analysing personal consumption data this week. Another solid increase is expected in May, after spending rose strongly in April.
- **The schedule in the UK is quiet.** The CBI distributive trades survey for June is the main release of note. Analysts will look to it for early guidance on whether the strong rebound by the retail sector seen in April and May has continued.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2018	2018	2019
Fed Funds	1.625	2.125	2.375	2.375
ECB Deposit	-0.40	-0.40	-0.40	-0.40
BoE Repo	0.50	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
		2018	2018	2019
EUR/USD	1.1642	1.20	1.22	1.24
EUR/GBP	0.8774	0.87	0.86	0.85
EUR/JPY	128.16	130	131	131
GBP/USD	1.3265	1.38	1.42	1.46
USD/JPY	110.08	108	107	106

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Cœuré, de Guindos (Tuesday)		
	Fed Speakers:	Kaplan, Bostic (Tuesday); Rosengren (Wednesday); Bullard (Thursday)		
	BoE Speakers:	Haldane (Monday); McCafferty (Tuesday)		
Mon 25th	GER: 09.00	Ifo Business Climate (June)	102.2	101.8
	US: 13.30	Chicago Fed National Activity Index (May)	0.34	
	US: 15.00	New Home Sales (May)	-1.5% / 0.662m s.a.a.r.	+1.0% / 0.666m
Tue 26th	UK: 11.00	CBI Distributive Trades Survey (June)	11	10
	US: 14.00	Case-Shiller House Prices (April)	+0.5% (+6.8%)	
	US: 15.00	Consumer Confidence (June)	128.0	128.1
Wed 27th	FRA: 07.45	Consumer Confidence (June)	100	100
	ITA: 09.00	ISTAT Business Confidence (June)	107.7	106.9
	ITA: 09.00	Consumer Confidence (June)	113.7	113.0
	IRL: 11.00	Retail Sales (May)	+1.5% (+4.8%)	+1.5% (+3.3%)
	US: 13.30	Durable Goods Orders (May)	-1.6%	-0.9%
	US: 13.30	Advanced Goods Trade Balance (May)	-\$67.34bn	
	US: 15.00	Pending Home Sales Index (May)	-1.3% / 106.4	+1.0% / 107.5
Thurs 28th	UK: 06.00	Nationwide House Prices (June)	-0.2% (+2.4%)	+0.3% (+1.7%)
	GER: 07.00	Gfk Consumer Sentiment (July)	10.7	10.6
	ITA: 10.00	Preliminary HICP (June)	(+1.0%)	(+1.4%)
	EU-19: 10.00	EC Business Climate (June)	1.45	1.40
	EU-19: 10.00	EC Economic Sentiment (June) - Industrial / Services / Consumer	112.5 6.8 / 14.3 / -0.5	112.0 6.3 / 14.1 / -0.5
	GER: 13.00	Preliminary HICP (June)	(+2.2%)	(+2.1%)
	US: 13.30	GDP (Q1: Final Reading)	+2.2% s.a.a.r.	+2.2%
	US: 13.30	Initial Jobless Claims (w/e 23rd June)	218,000	221,000
Fri 29th	UK: 00.01	Gfk Consumer Confidence (June)	-7	-6
	JPN: 00.30	Unemployment / Jobs : Applicants (May)	2.5% / 1.59	2.5% / 1.59
	JPN: 00.50	Industrial Output (May)	+0.5%	-1.1%
	GER: 07.00	Retail Sales (May)	+2.3%	-0.6%
	FRA: 07.45	Consumer Spending (May)	-1.5%	+0.7%
	FRA: 07.45	Preliminary HICP (June)	(+2.3%)	(+2.4%)
	GER: 09.00	Unemployment (June)	5.2%	5.2%
	UK: 09.30	BoE Mortgage Approvals (May)	62,455	62,150
	UK: 09.30	GDP (Q1: Final Reading)	+0.1% (+1.2%) (p)	+0.1% (+1.2%)
	EU-19: 10.00	Flash HICP (June) - Ex-Food & Energy	(+1.9%) (+1.3%)	(+2.0%) (+1.3%)
	US: 13.30	Personal Income / Consumption (May) - Core PCE Prices	+0.3% / +0.6% +0.2% (+1.8%)	+0.4% / +0.4% +0.2% (+1.9%)
	US: 15.00	Final Michigan Consumer Sentiment (June)	98.0 / 99.3 (p)	99.0

◆ 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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