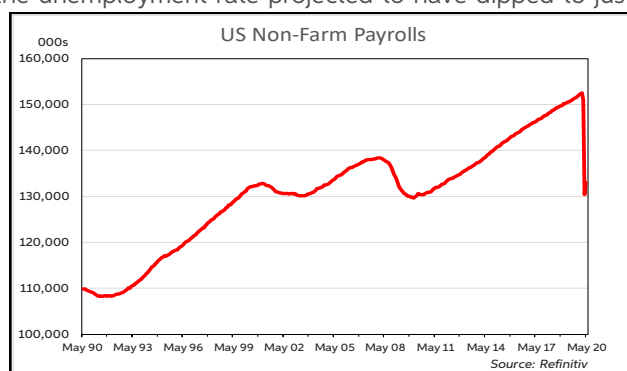


Half a Loaf is Better than None

- The EU-UK trade talks have made very little progress over the first half of the year.** The trade negotiations have been fractious, with neither side prepared to give any ground. This has been one of the factors behind the renewed weakening of sterling, with the euro climbing above the 90p level recently from 84p earlier in the year. The UK has ruled out any extension to the Brexit transition period beyond end 2020 that would allow the negotiations to be prolonged into next year. Thus, markets have been concerned that we could be heading for another cliff-edge Brexit date in December, with a growing risk that a trade deal would not be agreed, effectively triggering a hard Brexit at the start of 2021.
- More recently, though, there has been some signs of movement on both sides. Meetings this month between the UK Prime Minister and a number of EU Leaders would appear to have added fresh impetus to the talks.** 'Intensified' negotiations, including some face-to-face meetings, are to start on Monday, and continue during July, before hopefully resuming in September. A trade deal would need to be finalised by October to allow sufficient time to have it ratified by end year and take effect from 1st January 2021.
- The issue of regulatory alignment and a level playing field on trade has been a major stumbling block in the negotiations.** There have been signals from the EU that it could be prepared to soften its stance on this, especially regarding state-aid rules. Meanwhile, the UK may be prepared to accept some form of common minimum regulatory standards, that would still allow it to set its own rules subject to this constraint. Both sides seem keen to conclude some form of trade deal. Neither will want to endanger a recovery in activity next year from the current very deep recession, by heaping tariffs and trade restrictions on businesses and risking a fresh economic shock. Agreement on the other main issues in the talks—fisheries rights, cooperation on security arrangements and governance via some form of disputes resolution mechanism, should be easier to achieve if real progress is made in the negotiations on trade over the summer.
- Given the limited timeframe for the negotiations, however, it looks like it will be just a minimal trade deal, largely focused on avoiding the imposition of tariffs and quotas on merchandise goods.** It is unlikely to extend to the services sector, the main export engine of the UK economy, most notably financial services. It will be a pale shadow of the current Single Market and, indeed, the comprehensive free trade deal that was promised at the time of the Brexit referendum in 2016. However, even a minimal trade deal would limit the immediate economic shock of the UK leaving the Single Market. It should also provide the basis for continuing cordial relations and could be built on in future talks in the years ahead. In this instance, half a loaf is certainly better than none at all. Even just a 'bare-bones' trade deal should allow sterling recover some of the ground it has lost since earlier in the year. However, the gains by the currency are likely to be limited as the UK's departure from the EU Single Market for a new much inferior trading relationship will inhibit the growth of the economy over the medium term. Thus, the euro may only fall back to around the 87-88p level, comfortably above the 83-85p range it occupied in January-February.
- This week, the highlight of the schedule is the US employment report for June.** In May, non-farm payrolls confounded expectations and increased by 2.5m (vs f'cast from 8m fall) as the rapid rehiring of workers in states that had re-opened in the survey period more than offset the impact of lay-offs elsewhere. In the intervening weeks, the US has continued to loosen Covid-19 related restrictions and initial jobless claims, while still elevated, have eased further. As a result, it is anticipated that payrolls may have increased by a record 3m in June, though this would still see them remain at a level some 16.5m below their February peak. The data are moving in the right direction, but with the unemployment rate projected to have dipped to just 12.3% in June, the road to recovery will be lengthy. Moreover, it could be derailed if the Covid-19 outbreak sweeping the South prompts the re-imposition of lockdowns in affected states. **The US calendar also contains some June survey data releases**, including the Conference Board measure of consumer confidence and the manufacturing ISM, as well as the latest set of Fed meeting minutes.
- In the Eurozone, the flash reading of June HICP will feature.** The impact from the recent move in energy prices off their lows may see headline inflation edge up to 0.2% from 0.1%. However, it is envisaged that negative demand shock from Covid will see the core rate moderate from 1.2% to 1.0%. The other main item of interest will be the June print of the EC sentiment indices, which are likely to have improved in the month in keeping with the trend in other activity indicators. The May print of unemployment is also due. Furloughing schemes have been keeping the jobless rate low. On a national level, German retail sales and French consumer spending figures for May will also bear close watching. **There are no noteworthy UK data releases due in the coming week.**



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2020	2020	2021
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 Q3	End Q4	End Q1
		2020	2020	2020
EUR/USD	1.1225	1.12	1.13	1.14
EUR/GBP	0.9071	0.91	0.88	0.88
EUR/JPY	120.16	120	122	124
GBP/USD	1.2374	1.23	1.28	1.30
USD/JPY	107.03	107	108	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast	
This Week:	BoE Speakers:	Bailey , Vlieghe (Monday); Cunliffe (Tuesday); Haskel (Wednesday)			
	ECB Speakers:	Schnabel (Tuesday); Knot (Thursday)			
	Fed Speakers:	Daly, Williams (Monday); Williams, Powell (Tuesday)			
Mon 29th	UK:	09.30	BoE Mortgage Approvals (May)	15,848	25,000
	EU-19:	10.00	Business Climate (June)	-2.43	
	EU-19:	10.00	Economic Sentiment Index (June)	67.5	80.0
			- Industrial / Services / Consumer	-27.5 / -43.6 / -14.7 (p)	20.5 / -27.0 / -14.7
	IRL:	11.00	Retail Sales (May)	-35.4% (-43.4%)	+15.0% (-35%)
	GER:	13.00	Flash HICP (June)	(+0.5%)	(+0.6%)
	US:	15.00	Pending Home Sales Index (May)	69.0	82.7
Tue 30th	JPN:	00.30	Unemployment / Jobs: Applicants (May)	2.6% / 1.32	2.8% / 1.23
	JPN:	00.50	Industrial Output (May)	-9.8%	-5.6%
	CHINA:	02.00	NBS Manufacturing PMI (June)	50.6	50.4
			- Non-Manufacturing	53.6	
	UK:	07.00	GDP (Q1: Final Reading)	-2.0% (-1.6%)	-2.0% (-1.6%)
	FRA:	07.45	Consumer Spending (May)	-20.2%	+25.0%
	FRA:	07.45	Flash HICP (June)	(+0.4%)	(+0.4%)
	ITA:	10.00	Flash HICP (June)	(-0.3%)	(-0.3%)
	EU-19:	10.00	Flash HICP (June)	(+0.1%)	(+0.2%)
			- Core (Ex-Food & Energy)	(+1.2%)	(+1.0%)
	IRL:	11.00	Covid-Adjusted Unemployment (June)	26.1%	22.0%
	US:	14.00	Case-Shiller House Prices (April)	(+3.9%)	(+3.7%)
	US:	15.00	Conference Board Consumer Confidence (June)	86.6	90.0
Wed 1st	JPN:	00.50	Tankan Big Manufacturing Index (Q2)	-8	-31
			- Non-Manufacturing	8	-18
	IRL:	01.01	AIB Manufacturing PMI (June)	39.2	
	CHINA:	02.45	Caixin Manufacturing PMI (June)	50.7	50.5
	GER:	07.00	Retail Sales (May)	-5.3%	+4.1%
	GER:	08.55	Unemployment (June)	6.3%	6.6%
	EU-19:	09.00	Final Markit Manufacturing PMI (June)	35.6 / 46.9 (p)	46.9
	UK:	09.30	Final CIPS / Markit Manufacturing PMI (June)	40.7 / 50.1 (p)	50.1
	US:	14.45	Final Markit Manufacturing PMI (June)	39.8 / 49.6 (p)	49.6
	US:	15.00	Manufacturing ISM (June)	43.1	49.0
Thurs 2nd	ITA:	09.00	Unemployment (May)	6.3%	
	EU-19:	10.00	Unemployment (May)	7.3%	7.6%
	IRL:	11.00	Live Register (June)	226,400	
	US:	13.30	Non-Farm Payrolls (June)	+2.5m	+3.0m
			- Unemployment	13.3%	12.3%
			- Average Earnings	(+6.7%)	(+5.3%)
	US:	13.30	International Trade (May)	-\$49.4bn	-\$52.0bn
	US:	13.30	Initial Jobless Claims (w/e 27th June)	1,489,000	1,325,000
	IRL:	16.30	Exchequer Returns (June)	Jun '19: €0.26bn	-€8.0bn
Fri 3rd	US:		Market Holiday		
	IRL:	01.01	AIB Services PMI (June)	23.4	
	ITA:	08.45	Markit Composite PMI (June)	28.9	
	FRA:	08.50	Final Markit Composite PMI (June)	32.1 / 51.3 (p)	51.3
	GER:	08.55	Final Markit Composite PMI (June)	32.3 / 45.8 (p)	45.8
	EU-19:	09.00	Final Markit Composite PMI (June)	31.9 / 47.5 (p)	47.5
			- Services	30.5 / 47.3 (p)	47.3
	UK:	09.30	Final CIPS / Markit Composite PMI (June)	30.0 / 47.6 (p)	47.6
			- Services	29.0 / 47.0 (p)	47.0

◆ 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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