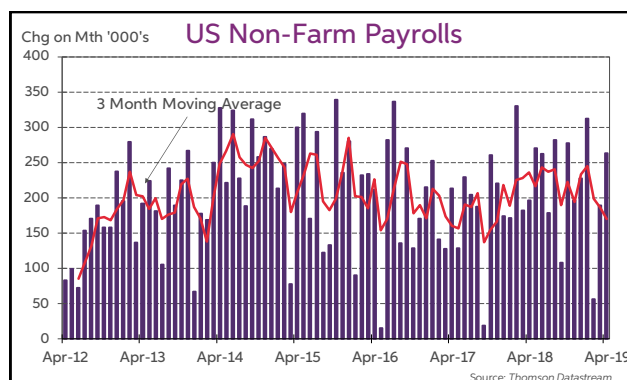


A Curve Ball

- Markets pay very close attention to the gap between the 3-month US Treasury bill rate and 10 year Treasury bond yield as it has turned negative ahead of every US recession in the past 50 years.** The past couple of weeks have seen the gap between 3-month and 10 year Treasuries turn negative, dropping to -20bps, its lowest level since 2007, just ahead of the last US recession. Market concerns about the global economic outlook can also be gauged from the fact that ten year bund yields have fallen to all-time lows of -0.2%.
- Caution, though, is warranted about reading too much into recent US yield curve trends.** On most occasions when yield curves invert, it is caused by central banks raising short-term interest rates, which can lead to a recession. This time, though, it is falling long-term interest rates that are at work, with a decline of over 100bps in ten year US bond yields since last autumn. Short-term rates have remained quite stable. Thus, the previous strong relationship between yield curves and recessions may not hold this time around.
- However, it is also the case that recent US data have been weaker than expected. The fiscal stimulus that boosted the economy last year is fading, while the lagged effects of the monetary tightening in 2017 and 2018 may be impacting activity.** Global growth has also weakened in the past year. The US expansion is also on the verge of becoming the longest on record, which may be generating concerns that it could soon end. Markets will be keeping a very close eye on data in the months ahead to gauge whether we are witnessing a moderation in US growth to more sustainable levels, or a much deeper downturn in the economy.
- In this regard, the focus this week be on the release of the key US employment report for May.** Non-farm payrolls growth has been strong in the first four months of 2019, rising by on average 205,000 a month. Growth is expected to have moderated, but remained solid in May, with an expansion of 180,000 forecast. At the same time, the unemployment rate, which fell to a 50-year low of 3.6% in April, is anticipated to have held at 3.6%. Overall, the tight labour market conditions will likely see the year-on-year growth rate of average earnings remain above the 3% level. Meanwhile, the May ISM reports are also due. The consensus is for the manufacturing index to have edged up to 53.0, from 52.8, while the non-manufacturing ISM is projected to have held at 55.5. On the monetary policy front, a speech by Chair Powell and the release of the Fed Beige Book will also warrant some attention ahead of the FOMC meeting on the 18th/19th June.
- In the Eurozone, the ECB holds its June policy meeting on Thursday.** No changes to policy are expected. Owing to this, attention will be focussed on President Draghi's press conference. Leading indicators, such as the PMIs, suggest that the economy remains on a weak footing, while global trade tensions have escalated over the past month. However, it may be too early for the central bank to shift out its forward guidance for unchanged rates into 2020. Markets will also be looking for some details on TLTROs III, which is due to be launched in September, while the latest set of ECB macro-economic projections will be of interest too.
- Data-wise, the Eurozone schedule is relatively sparse this week.** Although, we do get the preliminary reading of May HICP. Headline inflation spiked to 1.7% in April, largely due to the timing of Easter. However, last week's national data for May points to a fall in Eurozone inflation, with a 1.3% rate being forecast. Meanwhile, April unemployment figures are expected to show that the jobless rate held at 7.7%, while retail sales look to have dipped in the month.
- The key releases in the UK are the May PMIs.** As the impact of Brexit related stockpiling abates, the manufacturing PMI is forecast to have dropped to 52.0, from 53.1. Meanwhile, it is envisaged that the services index edged up to 50.6, from 50.4. Overall, the PMIs look set to point to a subdued level of activity in the UK.
- Elsewhere, the Reserve Bank of Australia and the Reserve Bank of India will also hold policy-setting meetings this week.** Against the backdrop of increasing concerns over the economic outlook, both central banks are expected to cut interest rates by 25bps, which would leave their respective policy rates at 1.25% and 5.75%.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	2019	2019	2019	2019
Fed Funds	2.375	2.375	2.375	2.625
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 Q2	End Q3	End Q4
	2019	2019	2019	2019
EUR/USD	1.1154	1.12	1.13	1.14
EUR/GBP	0.8864	0.89	0.89	0.89
EUR/JPY	121.33	123	123	123
GBP/USD	1.2581	1.26	1.27	1.28
USD/JPY	108.76	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Ramsden, Carney (Thursday)		
	Fed Speakers:	Barkin, Bullard (Monday); Brainard, Evans, Kaplan, Powell , Williams (Tuesday) Bostic, Clarida, Rosengren (Wednesday); Kaplan, Williams (Thursday) Barkin (Friday)		
Mon 3rd	IRL:	Market Holiday		
	JPN: 01.30	Nikkei Manufacturing PMI (May)	49.6	
	CHINA: 02.45	Caixin Manufacturing PMI (May)	50.2	50.0
	EU-19: 09.00	Final Markit Manufacturing PMI (May)	47.9 / 47.7 (p)	47.7
	UK: 09.30	CIPS / Markit Manufacturing PMI (May)	53.1	52.0
	US: 14.45	Final Markit Manufacturing PMI (May)	52.6 / 50.6 (p)	50.6
	US: 15.00	Construction Spending (April)	-0.9%	+0.4%
	US: 15.00	Manufacturing ISM (May)	52.8	53.0
Tue 4th	AUS: 02.30	RBA Interest Rate Decision	1.50%	1.25%
	IRL: 06.00	AIB Manufacturing PMI (May)	52.5	
	ITA: 09.00	Unemployment (April)	10.2%	10.3%
	UK: 09.30	CIPS / Markit Construction PMI (May)	50.5	50.5
	EU-19: 10.00	Preliminary HICP (May)	(+1.7%)	(+1.3%)
	EU-19: 10.00	Unemployment (April)	7.7%	7.7%
	US: 15.00	Factory Orders (April)	+1.9%	-1.0%
Wed 5th	CHINA: 02.45	Caixin Services PMI (May)	54.5	
	FRA: 08.50	Final Markit Composite PMI (May)	50.1 / 51.3 (p)	51.3
	GER: 08.55	Final Markit Composite PMI (May)	52.2 / 52.4 (p)	52.4
	EU-19: 09.00	Final Markit Composite PMI (May)	51.5 / 51.6 (p)	51.6
		- Services	52.8 / 52.5 (p)	52.5
	UK: 09.30	CIPS / Markit Services PMI (May)	50.4	50.6
	EU-19: 10.00	PPI (April)	(+2.9%)	(+3.2%)
	EU-19: 10.00	Retail Sales (April)	+0.0%	-0.2%
	IRL: 11.00	Unemployment (May)	4.6%	4.6%
	US: 14.45	Final Markit Composite PMI (May)	53.0 / 50.9 (p)	50.9
		- Services	53.0 / 50.9 (p)	50.9
	US: 15.00	Non-Manufacturing ISM (May)	55.5	55.5
	IRL: 16.30	Exchequer Returns (May)	May '18: -€24m	€300m
	US: 19.00	Fed Beige Book		
Thurs 6th	IRL: 06.00	AIB Services PMI (May)	54.7	
	GER: 07.00	Industrial Orders (April)	+0.6%	+0.1%
	INDIA: 10.00	RBI Interest Rate Decision	6.00%	5.75%
	EU-19: 10.00	GDP (Q1: Third Reading)	+0.4% (+1.2%)	+0.4% (+1.2%)
	EU-19: 12.45	ECB Refi Rate Announcement	0.00%	0.00%
		- Deposit Rate	-0.40%	-0.40%
	EU-19: 13.30	ECB Press Conference		
	US: 13.30	International Trade (April)	-\$50.0bn	-\$50.5bn
	US: 13.30	Initial Jobless Claims (w/e 27th May)	215,000	
Fri 7th	GER: 07.00	Industrial Output (April)	+0.5%	-0.3%
	GER: 07.00	Trade Balance (April)	€20.0bn	
		- Exports / Imports	+1.5% / +0.4%	
	FRA: 07.45	Industrial Output (April)	-0.9%	+0.3%
	FRA: 07.00	Trade Balance (April)	-€5.3bn	
	UK: 08.30	Halifax House Prices (May)	+1.1% (+5.0%)	
	ITA: 09.00	Retail Sales (April)	-0.3%	
	IRL: 11.00	Live Register (May)	-700/194,700	-1,700/193,000
	US: 13.30	Non-Farm Payrolls (May)	+263,000	+180,000
		- Unemployment	3.6%	3.6%
		- Average Earnings	(+3.2%)	(+3.2%)

◆ 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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