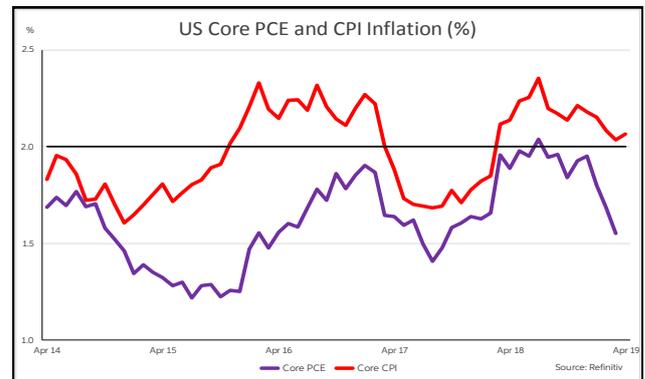


May Be Trouble Ahead

- Sentiment is turning increasingly risk averse in financial markets, with the trade war between the US and China now escalating into a technology war, while the latest business survey data for May suggest the sharp downturn in manufacturing activity could be starting to weigh on the services sector of economies.** The flash May PMI data for the US and Eurozone economies made for worrying reading. The US flash manufacturing PMI fell to 50.6 in May from 52.6 in April, its lowest level since September 2009. Meanwhile, the flash services PMI fell to 50.9 from 53.0. The PMI data point to a sharp slowdown in US business activity in May, suggesting that the strong GDP growth performance in the first quarter of the year will not be sustained.
- Meanwhile, the flash manufacturing PMI for the Eurozone spent its fourth consecutive month in sub-50 contractionary territory in May, declining to 47.7 from 47.9 in April.** The services PMI fell further to 52.5 from 52.8 in April. In Germany, the Ifo index saw a sharp decline in the services component in May, while the reading for the manufacturing index remained very weak. Again, the data point to a slowdown in growth in the Eurozone in the second quarter. The slump in manufacturing activity globally is associated with a sharp slowdown in international trade. Thus, the marked escalation in trade tensions between the US and China this month is a most unwelcome development.
- Markets are turning increasingly bullish on the outlook for interest rates against this backdrop.** Fed futures contracts have fully priced in a 25bps rate cut by end year. A further rate reduction is priced by mid-2020, with markets contemplating a third cut in early 2021. In Europe, markets now believe that the ECB will keep rates unchanged until late in 2021, while they also think it could be 2022 before UK rates are hiked. Not surprisingly, it is all providing a very constructive environment for bond markets, with a further marked fall in yields this month.
- Turning to the week ahead, there is a relatively quiet look to the macro calendar. Although, we do get the April reading of the Fed's preferred measure of price pressures, core-PCE.** Inflation, as measured by the index, moderated in Q1. As mentioned by Chair Powell at the FOMC's May policy meeting, this was largely due to "transitory factors", the impact of which is not expected to have unwound in April. Inflation is forecast to have held at 1.6%, below the Fed's 2% target level. Meantime, it is envisaged that the same report will show that growth in personal consumption eased in the month, having risen sharply in March. In a timelier update, the Conference Board measure of consumer confidence for May is also due. Mirroring last week's University of Michigan's reading, sentiment is expected to have remained at a buoyant level.
- In the Eurozone, the highlight is the release of the EC sentiment indices for May.** The headline Economic Sentiment index is anticipated to have declined for an eleventh straight month. In terms of the breakdown, it is envisaged that both the industrial and services sub-indices dipped, with the former projected to have dropped to a near 6-year low. On a national level, preliminary readings of May HICP are due in the Eurozone's three largest economies: Germany, France and Italy. Having spiked in April, largely due to the timing of Easter and higher energy prices, inflation looks to have moderated in May. Meanwhile, we will also get the results of the European Parliament election results on Sunday night / Monday morning. Of particular interest will be the performance of Eurosceptic parties, especially in Italy where the junior right-wing party in the coalition, the League, has been polling strongly.
- Elsewhere, the UK schedule is barren this week.** Indeed, the only releases of any note are GfK consumer confidence and Nationwide house prices (both May). The consensus expectation is for the former to show that sentiment edged slightly higher in the month, while the latter should continue to point to weak house price inflation. Overall though, attention is more likely to be focussed on the ongoing political developments in the UK following PM May's announcement that she will resign as Conservative Party leader on June 7th. **Finally, markets will keep an eye on manufacturing PMI data from China.** The index is expected to have slipped back below the 50 level again in May.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
	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			
EUR/USD	1.1185	1.12	1.13	1.14
EUR/GBP	0.8829	0.87	0.87	0.86
EUR/JPY	122.65	123	123	123
GBP/USD	1.2668	1.29	1.30	1.33
USD/JPY	109.63	110	109	108

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast	
This Week:	ECB Speakers:	Coeure (Monday); Mersch, Vasle, Visco (Wednesday)			
	Fed Speakers:	Clarida (Thursday); Williams (Friday)			
Mon 27th	UK/US:	Market Holiday			
Tue 28th	GER:	07.00	GfK Consumer Sentiment (June)	10.4	10.4
	FRA:	07.45	Consumer Confidence (May)	96	97
	EU-19:	09.00	M3 Money Supply (April)	(+4.5%)	(+4.4%)
	EU-19:	10.00	Business Climate (May)	0.42	0.40
	EU-19:	10.00	EC Economic Sentiment (May)	104.0	103.8
			- Industrial / Services / Consumer	-4.1 / 11.5 / -6.5	-4.4 / 11.0 / -6.5
	US:	14.00	Case-Shiller House Prices (March)	(+3.0%)	
	US:	15.00	Consumer Confidence (May)	129.2	130.0
Wed 29th	FRA:	07.45	Consumer Spending (April)	-0.1%	+0.4%
	FRA:	07.45	GDP (Q1: Second Reading)	+0.3%	+0.3%
	FRA:	07.45	Preliminary HICP (May)	(+1.5%)	(+1.2%)
	GER:	08.55	Unemployment (May)	4.9%	4.9%
	ITA:	09.00	ISTAT Business Confidence (May)	100.6	100.4
	ITA:	09.00	Consumer Confidence (May)	110.5	110.0
	IRL:	11.00	Retail Sales (April)	-0.8% (+4.9%)	+1.3% (+3.0%)
Thurs 30th	US:	13.30	GDP (Q1: Second Reading)	+3.2% s.a.a.r.	+3.1%
	US:	13.30	Advance Goods Trade Balance (April)	-\$71.33bn	
	US:	13.30	Initial Jobless Claims (w/e 20th May)	211,000	
	US:	15.00	Pending Home Sales (April)	+3.8% / 105.8	
Fri 31st	UK:	00.01	GfK Consumer Confidence (May)	-13	-12
	JPN:	00.30	Unemployment / Jobs: Applicants (April)	2.5% / 1.63	2.4% / 1.63
	JPN:	00.50	Preliminary Industrial Output (April)	-0.6%	+0.2%
	CHINA:	03.00	NBS Manufacturing PMI (May)	50.1	49.9
	GER:	07.00	Retail Sales (April)	-0.2%	-0.1%
	UK:	07.00	Nationwide House Prices (May)	+0.4% (+0.9%)	+0.0% (+1.2%)
	ITA:	09.00	GDP (Q1: Second Reading)	+0.2% (+0.1%)	+0.2% (+0.1%)
	UK:	09.30	BoE Mortgage Approvals (April)	62,341	63,500
	ITA:	10.00	Preliminary HICP (May)	(+1.1%)	(+1.0%)
	GER:	13.00	Preliminary HICP (May)	(+2.1%)	(+1.5%)
	US:	13.30	Personal Income / Consumption (April)	+0.1% / +0.9%	+0.3% / +0.2%
			- Core PCE Prices	(+1.6%)	(+1.6%)
	US:	15.00	Final Michigan Consumer Sentiment (May)	102.4	102.4

◆ 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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