

## Further softening in rate expectations

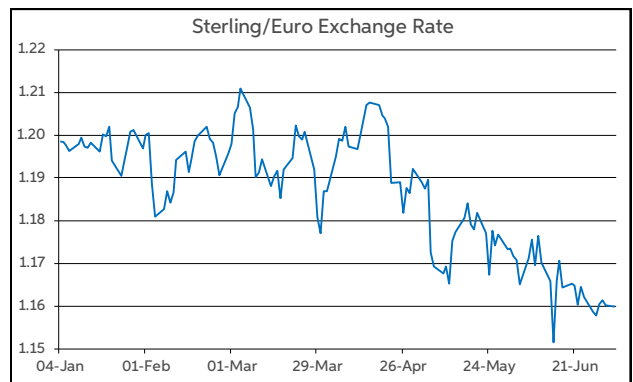
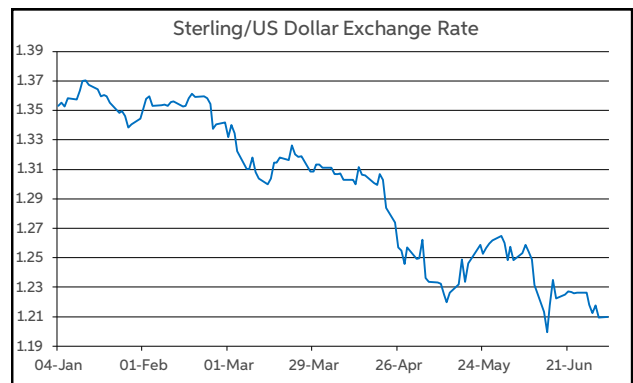
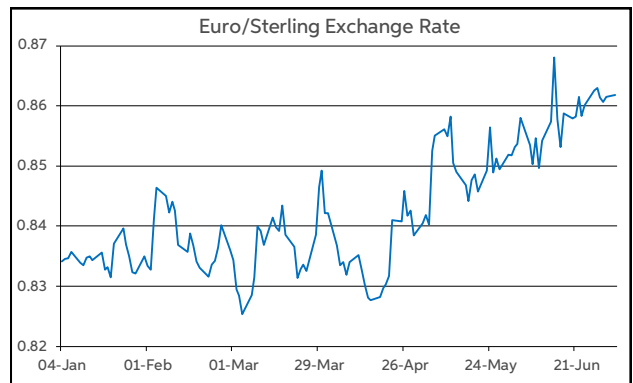
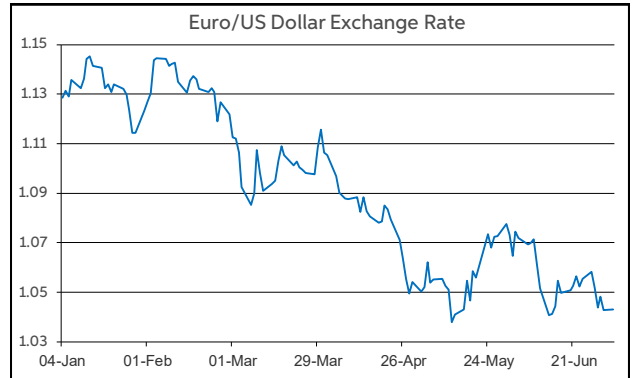
Investor sentiment was back in risk averse mode last week after a brief rally the previous week. Recession concerns were back to the fore of investor's minds. The S&P 500 finished the week down over 2% and registered its worst opening six months in over 50 years, falling by around 20% since the start of the year. Bond markets continued to rally amid the increased concerns about the economic outlook. Yields were down by between 15-30bps. The 10-year US Treasury yield fell back below the 3% level, while the 10-year German bund fell under the 1.3% mark.

Rising recession risks and some downside surprises to inflation resulted in a further softening of interest rate expectations. Eurozone rates are seen getting to 0.75% by year end and peaking at around 1.5% next year. Just a fortnight ago, these readings were at 1.25% and c.2.5% respectively. In the US, rates are now seen topping out at 3.25% by the end of this year with around 50bps of rate cuts priced in for H2'23 (previously, peak was 4% in 2023 with no cuts until 2024). For the BoE, futures contracts are now pricing in the Bank rate getting to a high of 2.75% next year (was 3.5%).

Currency-wise, the risk averse mood was supportive of the dollar. At the same time, sterling was under pressure on weak UK data, although it did recover somewhat on Friday. In level terms, EUR/USD once again tested the key support of \$1.04, trading to a low of \$1.038. Meanwhile, EUR/GBP edged higher within the 86-87p band. Elsewhere, GBP/USD fell back towards the \$1.20 threshold but managed to move back up to \$1.21 heading into the weekend.

Ahead this week, the main data highlight will be US payrolls numbers for June. The Fed and ECB meeting minutes will also be key calendar items.

**John Fahey, Senior Economist, AIB**



Today's Opening FX Rates			
		% Change	
		Day *	End 2021
EUR/USD	1.0433	-0.19	-8.22
EUR/GBP	0.8618	-0.08	2.60
GBP/USD	1.2103	-0.13	-10.54
GBP/EUR	1.16	0.08	-2.53
USD/JPY	135.39	0.22	17.65
EUR/JPY	141.25	0.03	7.93

\* v Previous Day's European Open  
See Next Page for More Rates

Opening Interest Rates						
	Base Rate	Money Market		Swap Rates		
		1-Mth	3-Mth	1-Yr	2-Yr	5-Yr
USD	1.625	1.80	2.29	3.19	3.13	2.91
EUR	0.00	-0.51	-0.18	0.75	1.25	1.70
GBP	1.25	1.23	1.69	2.68	2.80	2.62

All rates quoted are indicative market rates

See Next Page For More Rates & Charts

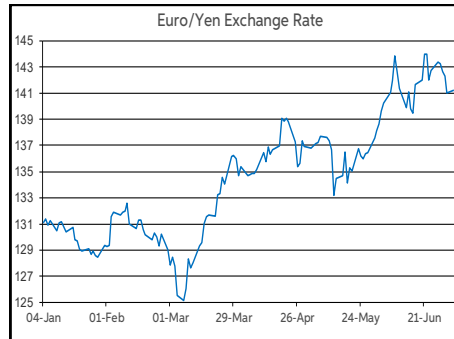
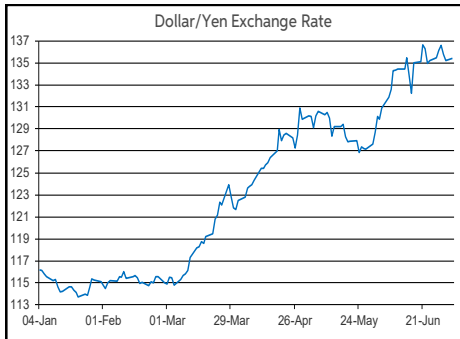
FX Spot	Karl Cooke Shane Gargan Ian Burke	FX Options	Mark Tuite	Reuters Phone	AIBG.I 00353-1-7724018	Morning Comment	John Fahey john.j.fahey@aib.ie
---------	---	------------	------------	------------------	---------------------------	-----------------	-----------------------------------

# Opening Levels

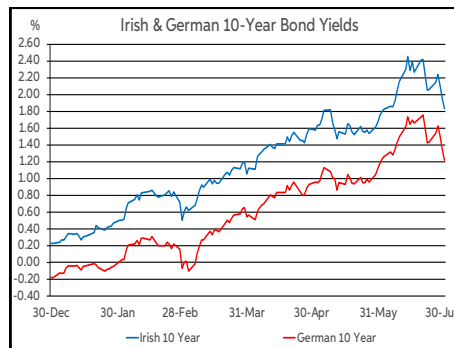
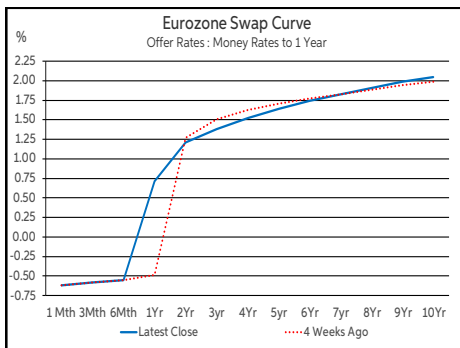
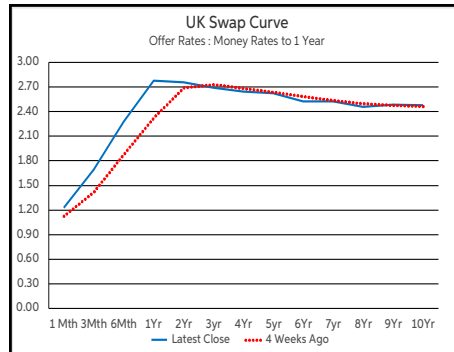
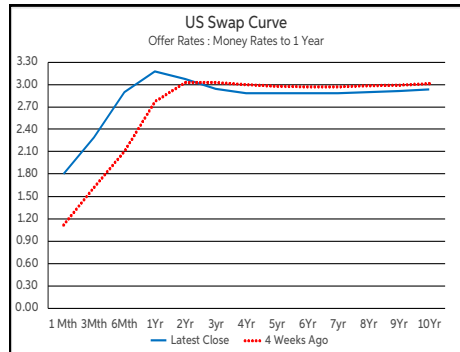
Monday 04 July 2022  
07:22 am



Euro		Sterling		Dollar	
EUR/GBP	0.8618	GBP/EUR	1.16	USD/JPY	135.39
EUR/USD	1.0433	GBP/USD	1.2103	USD/CAD	1.2868
EUR/JPY	141.25	GBP/CAD	1.5575	USD/CHF	0.9587
EUR/SEK	10.7535	GBP/NZD	1.944	USD/CNY	6.6917
EUR/DKK	7.4394	GBP/JPY	163.86	USD/BRL	5.329
EUR/NOK	10.3483	GBP/SEK	12.4732	USD/RUB	54.2
EUR/CHF	1.0002	GBP/DKK	8.6286	USD/INR	78.97
EUR/AUD	1.5267	GBP/NOK	12.0062	AUD/USD	0.6833
EUR/HKD	8.1863	GBP/CHF	1.1603	NZD/USD	0.6224
EUR/CAD	1.3426	GBP/AUD	1.771		



Debt Markets				
	Close	Change bps		
		Day	4 Weeks	End 21
<b>10 Year Yield %</b>				
US	2.89	-13	-5	+138
Germany	1.23	-14	-4	+141
UK	2.08	-16	-7	+111
Ireland	1.86	-13	-0	+161
Belgium	1.88	-16	+0	+170
France	1.79	-16	-1	+160
Italy	3.19	-20	-21	+201
Spain	2.27	-19	-16	+168
Portugal	2.29	-17	-19	+180
Greece	3.52	-10	-22	+220
<b>5 Year Swap %</b>				
US	2.88	-15	-6	+155
Eurozone	1.64	-13	-6	+163
UK	2.62	-13	-0	+134
<b>2 Year Swap %</b>				
US	3.07	-17	+8	+213
Eurozone	1.21	-15	-5	+151
UK	2.76	-10	+8	+156
<b>10 Year Government Bond Spreads to Benchmark bps</b>				
Ireland	64	+1	+4	+21
Belgium	65	-2	+5	+30
France	57	-2	+4	+19
Italy	197	-6	-17	+60
Spain	105	-5	-11	+27
Portugal	106	-3	-15	+40
Greece	229	+4	-18	+80



Commodities				
	% Change			
	Close	Day	4 Weeks	End 21
Brent Oil	111.63	-2.77	-6.76	+43.52
West Texas Oil	110.3	+2.36	-7.29	+46.42
Gold \$	1810.2	+0.18	-2.19	-1.00

This publication is for information purposes and is not an invitation to deal. The information is believed to be reliable but is not guaranteed. Any expressions of opinions are subject to change without notice. This publication is not to be reproduced in whole or in part without prior permission. In the Republic of Ireland it is distributed by Allied Irish Banks, p.l.c. In the UK it is distributed by Allied Irish Banks, p.l.c. and Allied Irish Bank (GB). In Northern Ireland it is distributed by Allied Irish Bank (NI). In the United States of America it is distributed by Allied Irish Banks, p.l.c. Allied Irish Banks, p.l.c. is regulated by the Central Bank of Ireland. Allied Irish Bank (GB) and AIB (NI) are trade marks used under licence by AIB Group (UK) p.l.c. (a wholly owned subsidiary of Allied Irish Banks, p.l.c.), incorporated in Northern Ireland. Registered Office 92 Ann Street, Belfast BT1 3HH. Registered Number NI018800. Authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. In the United States of America, Allied Irish Banks, p.l.c., New York Branch, is a branch licensed by the New York State Department of Financial Services. Deposits and other investment products are not FDIC insured, they are not guaranteed by any bank and they may lose value. Please note that telephone calls may be recorded in line with market practice.