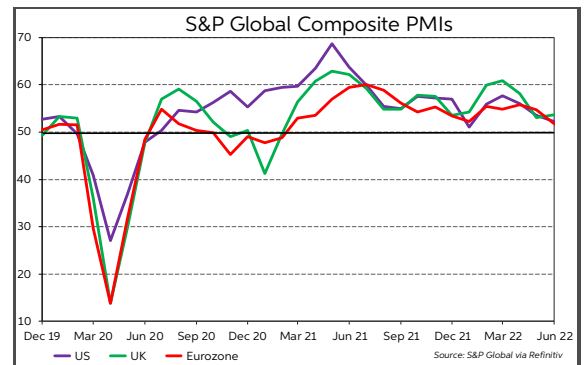


Breaking Point

- The action on currency markets continued to generate headlines last week.** The dollar maintained its winning streak, making gains against a raft of currencies. Safe haven demand and interest differentials continue to be supportive for the dollar. Indeed last week's larger than expected US inflation print for June has seen futures markets contemplate that the Fed may hike by more than 75bps at its next meeting on July 26/27th (rates are currently in a 1.5-1.75% range). Although, comments from some hawkish FOMC participants suggest 75bps remains the Fed's base case. Overall, US rates are seen at 3.5% by year end. In contrast, the ECB has yet to start to increase rates, with the deposit rate still in negative territory at -0.5%. The market is anticipating Eurozone rates will rise to around 1% by year end, well below their US equivalent.
- The dollar index (a measure of the currency's value versus a number of peers) broke above 108 for the first time since 2002.** One notable move in terms of the key forex pairs was EUR/USD falling to parity for the first time in 20 years, and tested below this level, to a low of \$0.995. The euro is now around 13% lower since the start of the year against the dollar. The previous time EUR/USD went below parity, it persisted for almost three years during the period 2000-2002. The evolving macro backdrop seems to be in the dollar's favour as well. While the US economy is expected to slow, the economic outlook appears much more challenging for the Eurozone, with its energy dependency meaning it is, by some degree, more vulnerable to impacts from the war in Ukraine.
- Therefore, this week's ECB meeting encapsulates some key event risk for the euro.** The ECB has guided that it will hike by 25bps on Thursday, and has not ruled out a 50bps increase in September. However, these moves are already priced in by interest rate markets, which expect around 150bps of rate hikes over the four remaining meetings this year. If the ECB falls short in convincing markets of its hawkish credentials, and that a significant rate tightening cycle is on the cards, then the euro could find itself under further downward pressure. The next key support level for EUR/USD is in and around the \$0.97 mark.
- Current pricing suggests the market is not ruling out a larger rate hike of 50bps.** It is important to note, that the Fed, the Bank of Canada and the Swiss National Bank have all implemented oversized rate hikes this summer. Furthermore, the Governing Council appears somewhat split on the rates outlook. Hawkish members, have stressed that the ECB needs to raise interest rates aggressively to try and bring inflation down. However, there appears to be some concern that by increasing rates too far too fast, the ECB runs the risk of, not just tipping the economy into recession, but causing fragmentation in the bond market. In June, the central bank convened an ad-hoc meeting, which resulted in it announcing it will introduce an "anti-fragmentation tool" in order to stop peripheral yields from blowing out, amid the ending of QE, and with rates starting to rise. It is unclear if the ECB will be in a position to provide more concrete details on this new tool this week.
- Meanwhile, in terms of data releases this week, the flash PMI readings for July in the US, Eurozone and UK will feature.** Last month, the composite PMIs fell sharply in the US and the Eurozone. The UK composite index rose slightly, boosted by a rebound in services activity, but the June reading was still the second lowest since February 2021. Overall, the data were consistent with a slowdown in economic activity. Worryingly, the new orders component of the surveys either contracted or stagnated, indicating that a further slowdown in activity lies ahead. Indeed, the PMIs are projected to deteriorate again in July, but remain above 50. The flash reading of Eurozone consumer confidence is expected to fall to -24.5, its lowest level since the onset of the pandemic in April 2020, as inflation continues to impact sentiment.
- Consumer confidence, which is at an all-time low in the UK, is also due.** The index is forecast to edge lower to -42 in July, from -41. Similar to in the Eurozone, surging inflation has weighed on sentiment in the UK. CPI inflation data for June is anticipated to show another increase in the headline rate, to 9.2% from 9.1% previously. The core rate is projected to ease slightly to 5.8% from 5.9%. Tight conditions in the labour market are raising concerns of a wage-price spiral in the UK. It is envisaged the unemployment rate remained at 3.8% in May, while average earnings are expected to inch higher to 4.3% from 4.2% in year-on-year terms. Meanwhile, retail sales are forecast to decline for the fourth month in six, by 0.4% in June.
- In the US, a slew of housing market metrics,** including housing starts, existing home sales (June) and homebuilder sentiment (July) will provide an update on the sector, which has softened in recent months.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022			2023
Fed Funds	1.625	2.875	3.375	3.375
ECB Deposit	-0.50	0.25	0.75	1.00
BoE Repo	1.25	1.75	2.25	2.25
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
	2022			2023
EUR/USD	1.0076	1.02	1.04	1.06
EUR/GBP	0.8493	0.86	0.87	0.88
EUR/JPY	139.61	141	145	148
GBP/USD	1.1863	1.19	1.20	1.20
USD/JPY	138.51	138	139	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Thu)		
	BoE Speakers:	Saunders (Mon); Bailey (Tue)		
	Fed Speakers:			
Mon 18th	US:	15:00 NAHB Homebuilder Sentiment (July)	67	66
Tue 19th	UK:	07:00 Unemployment Rate (April)	3.8%	3.8%
	UK:	07:00 Average Earnings (3 mnths to March) - Ex-Bonus	(+6.8%) (+4.2%)	(+6.9%) (+4.3%)
	UK:	07:00 Claimant Count (April)	-19.7k	
	EU-19:	10:00 Final HICP (June) - Ex-Food & Energy	+0.8% (+8.6%) +0.7% (+4.6%)	+0.8% (+8.6%) +0.7% (+8.6%)
	US:	13:30 Housing Starts (June) - Building Permits	+1.5m / -14.4% + 1.7m / -7.0%	+1.6m / +2.3% +1.7m / -1.7%
Wed 20th	UK:	07:00 CPI (June) - Core-CPI	+0.7% (+9.1%) +0.5% (+5.9%)	+0.5% (+5.8%) +0.7% (+9.2%)
	GER:	07:00 Producer Prices (June)	+1.6% (+33.6%)	+1.1% (+33.9%)
	UK:	07:00 PPI Input Prices (June) - Output Prices (June)	+2.1% (+22.1%) +1.6% (+15.7%)	
	EU-19:	15:00 Flash Consumer Confidence (July)	-23.6	-24.5
	US:	15:00 Existing Home Sales (June)	5.4m / -3.4%	5.4m / -0.3%
Thu 21st	JPN:	00:50 Trade Balance (June) - Exports	-¥2,385bn (+15.8%)	-¥1,509bn (+17.5%)
	JPN:	02:00 BoJ Rate Decision	-0.10%	-0.10%
	FRA:	07:45 INSEE Business Climate (July)	108	106
	UK:	11:00 CBI Trends - Orders (July)	18	
	EU-19:	13:15 ECB Refi Rate Announcement - Deposit Rate	+0.00% -0.50%	+0.25% -0.25%
	US:	13:30 Initial Jobless Claims (w/e 11th July)	+244,000	+240,000
	US:	13:30 Philly Fed Business Index (July)	-3.3	-2.5
	EU-19:	13:45 ECB Press Conference		
Fri 22nd	UK:	00:01 Gfk Consumer Confidence (July)	-41	-42
	JPN:	00:30 CPI (June) - Core-CPI	(+2.5%) (+2.1%)	(+2.2%)
	JPN:	01:30 Flash Jibun Composite PMI (July)	52.7	
	UK:	07:00 Retail Sales (June) - Ex-Fuel	-0.5% (-4.7%) -0.7% (-5.7%)	-0.4% (-5.3%) -0.4% (-6.3%)
	FRA:	08:15 Flash S&P Composite PMI (July)	51.3	51.9
	GER:	08:30 Flash S&P Composite PMI (July)	51.3	50.1
	EU-19:	09:00 Flash S&P Composite PMI (July) - Manufacturing /Services	52.0 52.1 / 53.0	51.0 51.0 / 52.0
	UK:	09:30 Flash CIPS / S&P Composite PMI (July) - Manufacturing /Services	53.7 52.8 / 54.3	52.5 52.0 / 53.1
	US:	14:45 Flash S&P Composite PMI (July) - Manufacturing /Services	52.3 52.7 / 52.7	52.0 52.0 / 52.6

◆ Month-on-month changes (year-on-year shown in brackets)