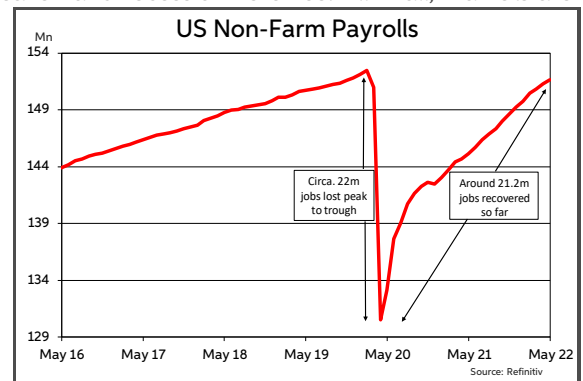


## Rattled Markets to Remain Volatile

- Financial markets remain very volatile as they are buffeted by the twin forces of slowing global activity and a continued rise in inflationary pressures.** Large intraday moves in both equity and bond markets are the order of the day, amid considerable uncertainty about the economic outlook, as well as the extent of monetary tightening by central banks. Significant rate hikes are nailed on for the coming quarter, with both the ECB and Fed likely to increase rates by at least 75bps and 125bps, respectively, by September. Further tightening is on the cards beyond that, but markets are unsure about what the peaks in rates will be in the various economies. It is expected that rates will not peak in the Eurozone until end 2023, much later than in the US or UK.
- We have seen a considerable amount of data published in recent weeks, pointing to slowing consumer spending, housing activity and industrial output in many countries.** The flash PMI indices for June in the main advanced economies show a significant loss of momentum in both manufacturing and services. Thus, fears of a recession are growing. This has resulted in market rate hike expectations being scaled back quite appreciably over the past couple of weeks. In the US, the Fed funds rate is now expected to top out at 3.25% at end year, down from the 4% peak priced in a fortnight ago. Furthermore, US rates are then expected to be cut by 50bps in H2 2023. Meanwhile, in the Eurozone, rates are now expected to rise to 0.75% by end year compared to 1.25% previously, with a peak at 1.5% at end 2023, down from the peak of close to 2.5% priced in just a couple of weeks ago.
- The recent softening in rate hike expectations is being replicated in longer term rates.** Ten year US Treasury yields have fallen to 2.9% from 3.5% in mid-June, with ten year German bund yields declining from 1.9% to 1.25% over the same period. Stock markets remain volatile, but are attempting to find a bottom after a very weak opening half to the year. They are taking some heart from the view that slowing growth may curtail central bank policy tightening somewhat. Investors had come to rely on forward guidance on policy from central banks over the past decade or more, but this is no longer the case. Central bankers have been changing their minds very quickly on policy this year as they contend with an inflation shock. Policy decisions are now being largely driven by the latest inflation data in particular.
- It is still unclear the degree to which economic global activity will slow in the second half of this year and in 2023, or how sustained the rise in inflation will prove.** Inflation, though, tends to lag the economic cycle, especially when it is being largely driven by long lasting supply-side shocks. Central banks have been emphasising that their main priority is to bring inflation down from its current very high levels and restore price stability. They will want to see clear evidence of significant progress in this regard, before changing their tune on monetary policy. A marked deceleration in inflation may take some time, though, especially if further supply disruptions hit global energy markets this winter. Thus, central banks may well retain a hawkish bias even if economic data continue to weaken and recession risks rise. All in all, markets are likely to remain very volatile for some time yet.
- This week, the main release of note will be the US labour market report for June.** Payrolls have been growing at a healthy clip of just under 500k on average since the turn of the year. However, they are still circa 800k below their pre-pandemic level. Nevertheless, the unemployment rate was at just 3.6% in May. Payrolls are projected to rise by a more modest 265k in June, while the unemployment rate is forecast to remain unchanged at 3.6%.
- Labour force participation has been stagnant so far in 2022.** It stood at 62.3% in May, around 1 percentage point below its pre-Covid reading. As a result, conditions in the labour market are very tight, with almost twice as many job openings as there are unemployed people in recent months. Tight conditions in the job's market have led to wage growth rising rapidly, with average earnings up 5.2% y/y in May. Encouragingly though, this is down from a peak of 5.6% in March, and the month-on-month increase has flat-lined at 0.3% recently. The consensus is for the trend in wages to continue, with earnings rising by 0.3% again in June, and the y/y rate edging lower to 5%. Elsewhere in the US, the non-manufacturing ISM is expected to decline to 55.7 in June from 54.5. **Meanwhile the latest Fed meeting minutes will garner close attention.**
- In the Eurozone, the latest ECB monetary policy meeting account is also due.** Data-wise, retail sales are projected to rise by 0.3% in May, having declined sharply by 1.3% in April. Elsewhere, German industrial production is forecast to increase by 0.4% in May, although, this would still leave it circa 6% below its pre-pandemic level. **Meanwhile, there is a sparse data schedule in the UK this week.**



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022		2022	2023
Fed Funds	1.625	2.625	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		2022	2023
EUR/USD	1.0377	1.06	1.07	1.08
EUR/GBP	0.8648	0.87	0.88	0.88
EUR/JPY	139.96	146	150	151
GBP/USD	1.1996	1.22	1.22	1.23
USD/JPY	134.86	138	140	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	de Guindos (Mon); <b>Lagarde</b> (Fri)		
	<b>BoE Speakers:</b>	Tenryro (Tue); Pill, Cunliffe (Wed); Mann (Thu)		
	<b>Fed Speakers:</b>	Waller, Bullard (Wed); Williams (Friday)		
<b>Mon 4th</b>	<b>US:</b>	<b>Markey Holiday (Independence Day)</b>		
	<b>GER:</b> 07:00	Trade Balance (May)	+€3.5bn	+€2.4bn
		- Exports	(+4.4%)	(-0.3%)
	<b>EU-19:</b> 09:30	EU Sentix Index (July)	-15.8	-20.0
	<b>EU-19:</b> 10:00	Producer Prices (May)	+1.2% (+37.2%)	+1.0% (+36.7%)
	<b>IRL:</b> 16:30	<b>Exchequer Returns (June)</b>	<b>Jun'21: -€5.3bn</b>	<b>Jun'22: +€3.5bn</b>
<b>Tue 5th</b>	<b>IRL:</b> 01:01	<b>AIB Services PMI (June)</b>	<b>60.2</b>	
	<b>FRA:</b> 07:45	Industrial Output (May)	-0.1%	+0.3%
	<b>ITA:</b> 08:45	S&P Composite PMI (June)	52.4	
	<b>FRA:</b> 08:50	Final S&P Composite PMI (June)	52.8	52.8
	<b>GER:</b> 08:55	Final S&P Composite PMI (June)	51.3	51.3
	<b>EU-19:</b> 09:00	Final S&P Composite PMI (June)	51.9	51.9
		- Final Services PMI	52.8	52.8
	<b>UK:</b> 09:30	Final S&P Global / CIPS Composite PMI (June)	53.1	53.1
		- Services PMI	53.4	53.4
<b>Wed 6th</b>	<b>GER:</b> 07:00	Industrial Orders (May)	-2.7%	-0.6%
	<b>EU-19:</b> 10:00	Retail Sales (May)	-1.3% (+3.9%)	+0.4% (-0.2%)
	<b>IRL:</b> 11:00	<b>Unemployment Rate (June)</b>	<b>4.7%</b>	<b>4.7%</b>
	<b>US:</b> 14:45	Final S&P Global Composite PMI (June)	51.2	51.2
		- Final Services PMI	51.6	51.6
	<b>US:</b> 15:00	Non-Manufacturing ISM (June)	55.9	54.5
	<b>US:</b> 15:00	JOLTS Job Openings (May)	11.4m	
	<b>US:</b> 19:30	Fed Meeting Minutes (14-15th June)		
<b>Thu 7th</b>	<b>UK:</b> 07:00	Halifax House Prices (June)	+1.0% (+10.5%)	
	<b>GER:</b> 07:00	Industrial Output (May)	+0.7% (-2.1%)	+0.4% (-1.2%)
	<b>EU-19:</b> 12:00	ECB Monetary Policy Account (8-9th June)		
	<b>US:</b> 13:15	ADP Employment (June)	+128,000	+200,000
	<b>US:</b> 13:30	International Trade (May)	-\$87.1bn	-€85.0bn
	<b>US:</b> 13:30	Initial Jobless Claims (w/e 27th June)	+231,000	+230,000
<b>Fri 8th</b>	<b>FRA:</b> 07:45	Trade Balance (May)	-€12.2bn	
	<b>ITA:</b> 09:00	Industrial Output (May)	+1.6% (+4.2%)	-1.0% (-2.0%)
	<b>US:</b> 13:30	Non-Farm Payrolls (June)	+390,000	+265,000
		- Unemployment Rate	3.6%	3.6%
		- Average Earnings	+0.3% (+5.2%)	+0.3% (+5.0%)

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