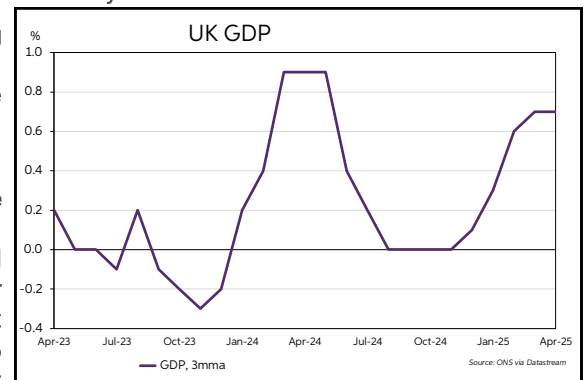


## All Kinds of Doves

- **The recent ECB Forum on Central Banking saw the heads of the main central banks espousing similar musings on the economic outlook and the elevated level of uncertainty that currently prevails.** However, looking back over the first half of the year, we saw differing postures adopted by some of these respective ‘banks’ as they deliberated against the more unpredictable macro backdrop. With a large degree of this uncertainty originating from the US, especially in relation to tariffs and trade, the Fed adopted a wait-and-see approach. In contrast, both the ECB and BoE implemented further cuts in their rate cutting cycle during the first six months of the year, albeit while easing at different paces.
- **Indeed, for the fourth consecutive meeting, the ECB cut rates by 25bps in June.** The Depo rate was lowered to 2.00%, marking the eighth 25bps rate cut since it started its easing cycle in June’24. It continued to state that it will follow a “data-dependent” and “meeting-by-meeting” approach in June. President Lagarde noted though that it was nearing the end of its easing cycle and that it viewed its policy setting to be in a good position to deal with “uncertainty” over the coming months. These comments suggest that another near-term cut is unlikely, and the extent of further easing may be limited. In terms of the BoE, having cut rates in May, it maintained its official interest rate at 4.25% in June. Once again, there was no unanimity within the BoE, with three members voting for a 25bps rate cut in June. Its current easing cycle, which began in Aug’24, has seen a total of 100bps of cuts (including 50bps YTD). The BoE retains an easing bias, and it repeated that it favours a gradual approach to rate cuts.
- **Meanwhile, the Fed left rates on hold again in June, in a 4.25-4.50% range.** The updated rate projections (i.e. ‘dot plot’) remained for 50bps of cuts this year, but there was a more hawkish dispersion to the dots. Chair Powell re-stated that the FOMC believes its policy is “well positioned” and is in ‘wait-and-see’ mode over the summer to assess the impact from tariffs. His subsequent semi-annual testimony and comments at the ECB forum reiterated the Fed’s patient stance. This is in conflict with President Trump’s preference and pressure for more immediate easing. Furthermore, some members of the FOMC have also sounded more dovish in recent remarks.
- **Assessing the monetary policy outlook for the second half of the year, the market is anticipating the ECB Depo rate falling to 1.75% by year end.** We remain of the view that the Depo rate could still be at 2% by the end of the year, albeit one more 25bps rate cut cannot be completely ruled out. Meanwhile, UK futures contracts are not fully pricing in the next 25bps rate reduction until September. However, we would not be surprised to see this cut occur in August when the MPC will have its updated macro forecasts. We envisage a Bank rate of 3.75% by year end. In the US, amid the recent dovish comments from some Fed officials combined with the White House’s explicit policy preference, rate expectations have ebbed and flowed. There is around 60bps of Fed easing now expected for this year. The first cut is priced in by markets for September, which is a view we share, and we anticipate 50bps of Fed easing by year end.
- **The economic outlook and the path for monetary policy may become somewhat clearer next week, given the deadline for trade negotiations between the US and others expires on the 9th (this Wednesday).** Alas, a key focus for markets will be on the potential announcement of trade deals or a return to very high tariff rates this week. However, an extension of the deadline and in-turn the current status quo of ‘high uncertainty’ cannot be ruled out.
- **Elsewhere, on the monetary policy front, the Fed FOMC meeting minutes from June are due.** Investors will be looking for any guidance on the outlook for policy in the release, albeit they may be disappointed. Data-wise, the NFIB measure of small business optimism for July is the only US release of note.
- **The main highlight from a quiet UK data calendar will be the monthly reading of GDP for May.** Following a strong start to the year, with the economy expanding throughout Q1, GDP contracted by 0.3% m/m in April, the fastest pace of decline since October 2023. Furthermore, the recent survey and hard data have been at best mixed. Despite this though, the consensus is for a meagre 0.1% m/m expansion in May. Elsewhere in the UK, industrial production is forecast to stagnate in May, after falling by 0.7% in March and by 0.6% in April.
- **Meanwhile, Eurozone retail sales for May will feature.** A sharp 0.7% decline is pencilled in for the midpoint of Q2. In terms of more timely data though, the EU Sentix index is projected to improve to 1.1 in July, its highest level since February 2022. Updates on industrial output for May in Germany and Italy will also warrant some interest.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.25	4.00	3.75	3.50
BoJ OCR	0.50	0.50	0.75	0.75

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
EUR/USD	1.1780	1.18	1.19	1.20
EUR/GBP	0.8630	0.86	0.85	0.84
EUR/JPY	170.19	170	170	168
GBP/USD	1.3647	1.37	1.40	1.43
USD/JPY	144.46	144	143	140

Current Rates Reuters, Forecasts AIB's ERU

# ECONOMIC DIARY

## Monday 7th - Friday 11th July

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>		de Guindos (Wed); Cipollone (Thu)		
	<b>BoE Speakers:</b>				
	<b>Fed Speakers:</b>		Daly (Thu)		
<b>Mon 7th</b>	<b>GER:</b>	07:00	Industrial Output (May)	-1.4% (-2.0%)	+0.0% (+0.2%)
	<b>EU-20:</b>	09:30	EU Sentix Index (July)	0.2	1.2
	<b>EU-20:</b>	10:00	Retail Sales (May)	+0.1% (+2.3%)	-0.7% (+1.2%)
<b>Tue 8th</b>	<b>IRE:</b>	<b>01:01</b>	<b>AIB Irish construction PMI (June)</b>	<b>49.2</b>	
	<b>GER:</b>	07:00	Trade Balance (May)	+€14.6bn	
			- Exports	-1.7%	+0.0%
	<b>US:</b>	11:00	NFIB Small Business Optimism (June)	98.8	
	<b>IRE:</b>	<b>11:00</b>	<b>Annual National Accounts (2024)</b>		
<b>Wed 9th</b>	<b>US:</b>	19:00	Fed FOMC Meeting Minutes (June 18-19th)		
<b>Thu 10th</b>	<b>UK:</b>	00:01	RICS Housing Survey (June)	-8.0	
	<b>GER:</b>	07:00	Final HICP Inflation (June)	+0.1% (+2.0%)	
	<b>ITA:</b>	09:00	Industrial Output (May)	+1.0% (+0.3%)	+0.1%
	<b>IRE:</b>	<b>11:00</b>	<b>CPI Inflation (June)</b>	<b>+0.0% (+1.4%)</b>	<b>+0.5% (+1.7%)</b>
			<b>- Final HICP Inflation</b>	<b>Flash: +0.5% (+1.6%)</b>	<b>+0.5% (+1.6%)</b>
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 30th June)	+233,000	+235,000
<b>Fri 11th</b>	<b>UK:</b>	07:00	GDP (May)	-0.3% (+0.9%)	+0.1% (+0.7%)
			- 3 mth / 3 mth	+0.7%	+0.4%
	<b>UK:</b>	07:00	Industrial Output (May)	-0.6% (-0.3%)	+0.0% (+0.0%)
			- Manufacturing Output (May)	-0.9% (+0.4%)	-0.1% (+0.3%)
	<b>FRA:</b>	07:45	Final HICP Inflation (June)	+0.4% (+0.8%)	+0.4% (+0.8%)

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

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