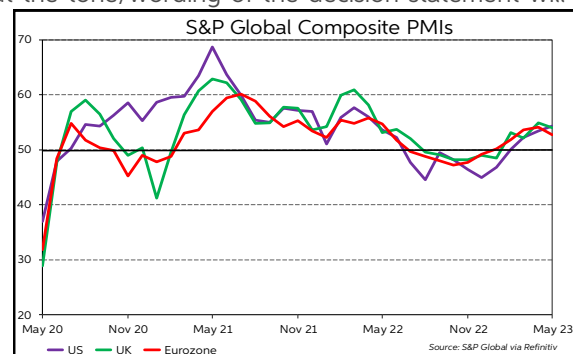


## ECB's Strong Four-hand

- **The Euro area economy has lost considerable momentum since last summer.** GDP fell by 0.1% in the final quarter of 2022 and again in the opening quarter of 2023, with the economy thus entering a technical recession. The squeeze on real household incomes, from elevated levels of inflation and higher interest rates, has weighed on consumer spending, while exports have weakened in the face of slower global growth. However, there has been a marked variation in the performances of the larger Eurozone economies over the past year. The heavily energy reliant and export orientated German economy has lagged well behind the others, with GDP declining by 0.5% in Q4, and 0.3% in Q1, to leave it down by 0.5% on its Q1 2022 level. By contrast, the French, Italian and Spanish economies saw growth of 0.2%, 0.6% and 0.5%, respectively, in the first quarter of 2023, with strong year-on-year growth rates for Italy and Spain in particular, at 1.9% and 3.8%.
- **In terms of the available Q2 data, retail sales stagnated in April, meaning they were 2.6% lower in year-on-year terms.** Industrial output rebounded by 0.8% in April, but remained quite weak overall, having declined by a chunky 3.8% in March. Elsewhere, the survey data available for April and May show that the services sector is continuing to outperform manufacturing. The services PMI rose to 56.2 in April, its highest level in a year before easing back to a still strong 55.1 in May. In contrast, the manufacturing PMI remained in contractionary territory for the eleventh month running, falling to 44.8, its lowest level since May 2020. Meanwhile, labour market conditions have tightened. The unemployment rate fell in April, to a new all-time low of 6.5%. At the same time, the latest available employment data, which are for Q1 2023, show a strong 0.6% rise in the quarter for a year-on-year gain of 1.6%.
- **Regarding inflation, the headline HICP rate has fallen sharply from its peak of 10.6% last October.** It declined to 6.1% by May, down from 7.0% in April, helped by lower energy costs. However, inflation has become more broad based, with services inflation rising from 4.4% in December, to 5.0-5.2% in the March to May period. The core HICP rate, though, that excludes energy, food, alcohol and tobacco, did decline to 5.3% in May from a tight 5.6-5.7% range in the previous three months. The latest ECB projections are for headline inflation to average 5.4% this year, with the core rate at 5.1%. Both rates are forecast to fall to 3% in 2024, and decline further to near 2% by 2025
- **The ECB hiked its key deposit rate by a further 25bps to 3.5% at Thursday's Council meeting.** It was again quite blunt in stating that while inflation has been coming down, it is still projected to remain too high for too long. President Lagarde also clearly indicated that the ECB has more ground to cover in tightening policy, adding that another rate hike is very likely at its policy meeting in July. Markets are starting to price in a further rate increase in the autumn too, which would bring the deposit rate to 4%. Economic growth may be weak, but for the ECB, inflation remains too high, necessitating the continuation of rate tightening.
- **Turning to the week ahead, the main highlight will be the Bank of England monetary policy meeting this Thursday.** In recent weeks, UK rate hike expectations have hardened significantly, on the back of a sharp jump in core-CPI and wage inflation. Indeed, several members of the MPC, including Governor Bailey, have acknowledged that the UK is facing second-round inflation effects from higher wages, meaning price pressures are not easing as anticipated. As a result of this, the market is now pricing in at least 125bps worth of rate hikes in the UK between now and year end, with a 25bps increase pencilled in for this week. There will be no press conference after the policy announcement, but the tone/wording of the decision statement will garner close attention from market participants.
- **A day before the BoE policy decision, UK CPI data inflation for May will be released.** In April, the headline rate of inflation fell to 8.7% from 10.6%, due to the unwinding of the large increase in energy and fuel costs in April 2022. Food price inflation, though, remained very high, at over 19%. Meanwhile, core-CPI inflation accelerated to 6.8% from 6.2%, with services prices rising by 1.3% in the month, after a 1.6% jump in March. A modest fall in headline inflation to 8.5% in May is pencilled in. The consensus is for core-CPI inflation to remain at 6.8%. Elsewhere, retail sales, which have been volatile in recent months, are forecast to fall by 0.2%, partly due to an extra Bank Holiday for the Coronation, leaving them 2.3% lower in year-on-year terms.
- **Meanwhile, the flash PMIs for June in the US, Eurozone and UK will be of keen interest.** In all three economies, the services sector has outperformed manufacturing recently, with the former in expansion territory and the latter in contraction mode. This trend is expected to continue, despite a moderation in the rate of expansion in the services sector. The US, Eurozone and UK services PMIs are projected to ease to 53.7, 54.5 and 54.8, respectively, from 54.9, 55.1 and 55.2. At the same time, the manufacturing PMIs are forecast to be little changed, staying below the key 50 level. **Elsewhere, in the US this week, comments from Fed Chair Powell in his semi-annual testimony to Congress will be in focus.**



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2023	2023	2023
Fed Funds	5.125	5.125	5.375	5.375
ECB Deposit	3.50	3.50	4.00	4.00
BoE Repo	4.50	4.75	5.25	5.25
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 Q2	End Q3	End Q4
		2023	2023	2023
EUR/USD	1.0950	1.09	1.11	1.13
EUR/GBP	0.8535	0.86	0.87	0.88
EUR/JPY	154.75	155	159	163
GBP/USD	1.2830	1.27	1.28	1.28
USD/JPY	141.28	142	143	144

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lane, Schnabel, de Guindos (Mon); Schnabel (Wed); de Guindos, Panetta (Fri)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	Williams, Bullard (Mon); <b>Powell</b> , Goolsbee (Wed); <b>Powell</b> , Waller, Bowman, Mester (Thu); Bullard, Mester (Fri)		
<b>Mon 19th</b>	<b>US:</b>	<b>Junteenth (Market Holiday)</b>		
	<b>US:</b>	15:00 NAHB Homebuilder Sentiment (June)	50	50
<b>Tue 20th</b>	<b>GER:</b>	07:00 Producer Prices (May)	+0.3% (+4.1%)	-0.7% (+1.7%)
	<b>US:</b>	13:30 Housing Starts (May)	+1.4m / (+2.2%)	+1.4m / (-0.1%)
		- Building Permits (May)	+1.4m / (-1.4%)	+1.4m / (+0.6%)
<b>Wed 21st</b>	<b>UK:</b>	07:00 CPI Inflation (May)	+1.2% (+8.7%)	+0.4% (+8.5%)
		- Core-CPI	+1.3% (+6.8%)	+0.6% (+6.8%)
	<b>UK:</b>	07:00 PPI Input Prices (May)	-0.3% (+3.9%)	
		- Output Prices	+0.0% (+5.4%)	
	<b>UK:</b>	11:00 CBI Trend Orders (June)	-17	
<b>Thu 22nd</b>	<b>FRA:</b>	07:45 INSEE Business Climate (June)	100	100
	<b>UK:</b>	12:00 BoE Interest Rate Announcement		
		- Bank Rate	4.50%	4.75%
	<b>UK:</b>	12:30 BoE Monetary Policy Report Press Conference		
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 12th June)	+262,000	+264,000
	<b>EU-20:</b>	15:00 Flash Consumer Confidence (June)	-17.4	-17.0
	<b>US:</b>	15:00 Existing Home Sales (May)	+4.3m / -3.4%	+4.2m / -0.9%
<b>Fri 23rd</b>	<b>UK:</b>	00:01 Gfk Consumer Sentiment (June)	-27	-25
	<b>JPN:</b>	00:30 CPI Inflation (May)	+0.6% (+3.5%)	+0.0% (+3.2%)
		- Core-CPI (May)	+0.5% (+3.4%)	+0.0% (+3.1%)
	<b>JPN:</b>	01:30 Flash Jibun Composite PMI (June)	54.3	
	<b>UK:</b>	07:00 Retail Sales (May)	+0.5% (-3.0%)	-0.2% (-2.3%)
		- Ex-Fuel	+0.8% (-2.6%)	-0.3% (-2.1%)
	<b>SPA:</b>	08:00 GDP (Q1: Final Reading)	+0.5% (+3.8%)	+0.5% (+3.8%)
	<b>FRA:</b>	08:15 Flash S&P / HCOB Composite PMI (June)	51.2	51.1
	<b>GER:</b>	08:30 Flash S&P / HCOB Composite PMI (June)	53.9	53.5
	<b>EU-20:</b>	09:00 Flash S&P / HCOB Composite PMI (June)	52.8	52.5
		- Manufacturing / Services	44.8 / 55.1	44.5 / 54.5
	<b>UK:</b>	09:30 Flash S&P / CIPS Composite PMI (June)	54.0	53.7
		- Manufacturing / Services	47.1 / 55.2	46.8 / 54.8
	<b>US:</b>	14:45 Flash S&P Composite PMI (June)	54.3	53.4
		- Manufacturing / Services	48.4 / 54.9	48.0 / 53.7

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

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