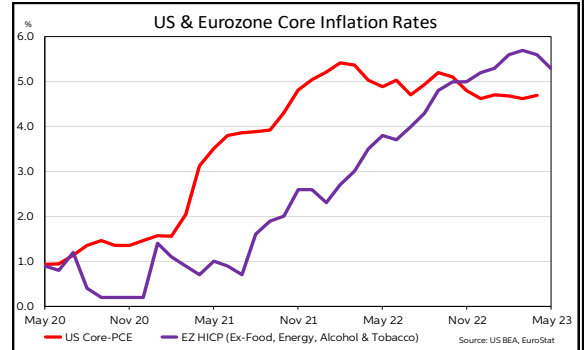


## Higher and Higher

- Inflation remains a key aspect of the discourse on the global economic outlook and the trajectory of interest rates.** Indeed, with inflation still well above target, whilst labour market conditions remain tight, price dynamics continue to be front and centre of central bank monetary policy deliberations. This was very much in evidence last week at the June meeting of the Bank of England's Monetary Policy Committee (MPC). The BoE raised rates by 50bps in response to signs that inflation was proving stickier than previously anticipated in the UK. This represented a re-acceleration in the pace of tightening, as it followed 25bps hikes at its March and May meetings, and sees the Bank rate rise to 5.00%. This was the thirteenth consecutive meeting since December 2021 where the BoE increased rates. The MPC has now raised rates by 490bps so far in this cycle.
- Speculation had intensified in the lead up to the meeting that the BoE would hike by 50bps, rather than by 25bps as previously anticipated.** This was in the aftermath of higher than expected inflation numbers for May. Headline inflation printed at an unchanged 8.7%, while core inflation came in at 7.1% versus consensus forecasts for 8.4% and 6.8%, respectively. In justifying their decision, the MPC noted that second-round impacts in domestic prices and wages arising from external shocks were likely to take longer to unwind than they had done to emerge. They also referenced the "significant upside news" in recent macro data which indicate more persistence in inflation against the backdrop of a "tight labour market and continued resilience in demand". Indeed, in a subsequent TV interview, BoE Governor Bailey, stated that "inflation is still too high and we've got to deal with it", otherwise, "if we don't raise rates now, it could be worse later".
- The BoE's meeting statement or minutes did not provide any specific guidance on the future path of UK interest rates.** However, it indicated a willingness to hike rates further if required. It stated that it will continue to monitor closely signs of persistent inflation pressures in the economy as a whole. If this analysis shows evidence of more persistent inflationary pressures, then the BoE has guided that a further tightening in monetary policy would be necessary. In terms of market expectations, there has been a notable firming in futures contracts over the last number of weeks. This has been in response to inflation printing higher than expected and labour market data showing stronger than anticipated wage growth. Futures contracts indicate that the market expects the Bank Rate to peak at 6% by year end. This view has solidified in the aftermath of the June BoE meeting. In contrast, at the time of its previous meeting in early May, the market was envisaging that the Bank Rate would peak in a 4.75-5.0% range by the autumn. Some 50-75bps of easing is anticipated by end 2024, with rates falling back to near 5.25%. Interestingly, the BoE did not attempt to alter the market's expectation that significant further rate tightening is on the cards. Of course, the extent of additional rate hikes from the BoE and other central banks will depend on the evolution of inflation.
- In this regard, the focus of this week's macro calendar will be the release of Eurozone and US inflation data.** US Core-PCE inflation, has operated in a very narrow 4.6-4.7% range since December 2022, down from a peak of 5.4% in February/March of last year. However, other measures of price pressures have shown some encouraging signs of easing recently. US core-CPI inflation declined to 5.3% in May, its lowest level since November 2021, while producer price inflation has also fallen sharply, and stood at just 1.1% in May. Nevertheless, the consensus is for core-PCE inflation to remain unchanged at 4.7% in May. **Meantime in the Eurozone, headline inflation has been in marked decline for a number of months, while core-inflation has also started to move lower.** Headline HICP fell to 6.1% in May, down from 7% in April, and well below its peak of 10.6% last October. The core measure eased also, to 5.3% from 5.6%. A further fall in the headline rate to 5.6% is pencilled in for June. However, core inflation is forecast to rise slightly, to 5.5%. **Thus, 'sticky' inflation will remain a hot topic of conversation at this week's ECB Forum on Central Banking, where speakers include, ECB President Lagarde, Fed Chair Powell and BoE Governor Bailey.**
- Elsewhere in the Eurozone this week, a number of key sentiment surveys are due.** The headline EC economic sentiment index is projected to deteriorate for the fifth month in six, falling to 96.0 in June from 96.5. Both the services and industrial sector readings are expected to decline also. Meantime, the closely followed German Ifo is forecast to edge down to 90.7 in June, from 91.7. The Eurozone unemployment rate is predicted to remain at its all-time low of 6.5% in May.
- Aside from the inflation data, there are a raft of other updates on the consumer side of the US economy.** Personal income rose by 0.4% m/m in April, supporting a robust 0.8% expansion in consumption. A second consecutive 0.4% increase in income is anticipated in May, but consumer spending is projected to moderate to +0.2%. Meanwhile, the consensus is for consumer confidence to edge higher in June to 103.5, from 102.3. Elsewhere, the final reading of US Q1 GDP is expected to be revised up to +1.4% annualised from +1.3%. **In the UK, the second reading of Q1 GDP is set to confirm the economy grew by 0.1% q/q.**



	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	5.00	5.00	5.50	5.50
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	1.0887	1.09	1.11	1.13
EUR/GBP	0.8565	0.86	0.87	0.88
EUR/JPY	156.35	155	159	163
GBP/USD	1.2708	1.27	1.28	1.28
USD/JPY	143.62	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>	<b>Lagarde</b> (Mon); <b>Lagarde</b> , Panetta, Schnabel (Tue); de Guindos, Lane, <b>Lagarde</b> (Wed);			
	<b>BoE Speakers:</b>	Dhingra, Tenreyro (Mon) (Pill, <b>Bailey</b> (Wed); Tenreyro (Thu)			
	<b>Fed Speakers:</b>	<b>Powell</b> (Wed); <b>Powell</b> , Bostic (Thu)			
		<b>ECB Forum on Central Banking (Mon 26th –Wed 28th June)</b>			
<b>Mon 26th</b>	<b>GER:</b>	09:00	German Ifo (June)	91.7	90.7
	<b>UK:</b>	09:00	CBI Distributive Trades (June)	-10	
<b>Tue 27th</b>	<b>ITA:</b>	09:00	ISTAT Business Confidence (June)	101.4	101.0
	<b>ITA:</b>	09:00	ISTAT Consumer Confidence (June)	105.1	105.5
	<b>US:</b>	13:30	Durable Goods (May)	+1.1%	-1.0%
			- Ex-Transport	-0.3%	-0.1%
	<b>US:</b>	14:00	Case-shiller House Prices (April)	+0.5% (-1.1%)	
	<b>US:</b>	15:00	Conference Board Consumer Confidence (June)	102.3	103.5
	<b>US:</b>	15:00	New Home Sales (May)	+0.68m / +4.1%	+0.67m / -1.9%
<b>Wed 28th</b>	<b>GER:</b>	07:00	Gfk Consumer Sentiment (July)	-24.2	-23.0
	<b>SPA:</b>	07:00	Retail Sales (May)	(+5.5%)	
	<b>EU-20:</b>	09:00	M3 Annual Money Growth (May)	(+1.9%)	(+1.5%)
	<b>ITA:</b>	09:00	Producer Prices (May)	-4.8% (-1.5%)	
	<b>ITA:</b>	10:00	Flash HICP Inflation (June)	+0.3% (+8.0%)	+0.1% (+6.7%)
	<b>IRL:</b>	<b>11:00</b>	<b>Retail Sales (May)</b>	<b>+2.8% (+7.5%)</b>	<b>+0.5% (+8.2%)</b>
<b>Thu 29th</b>	<b>SPA:</b>	08:00	Flash HICP Inflation (June)	-0.1% (+2.9%)	+0.4% (+1.5%)
	<b>UK:</b>	09:30	Mortgage Approvals (May)	+48.7k	+48.8k
	<b>EU-20:</b>	10:00	EC Economic Sentiment (June)	96.5	96.0
			- Industrial / Services / Consumer	-5.2 / 7.0 / -16.1	-5.5 / 5.5 / -16.1
	<b>GER:</b>	13:00	Final HICP Inflation (June)	-0.2% (+6.3%)	+0.3% (+6.7%)
	<b>US:</b>	13:30	GDP (Q1: Final Reading)	+1.3% s.a.a.r.	+1.4% s.a.a.r.
	<b>US:</b>	13:30	PCE Prices (Q1: Final Reading)	+4.2% s.a.a.r.	+4.2% s.a.a.r.
			- Core-PCE Prices	+5.0% s.a.a.r.	+5.0% s.a.a.r.
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 24th June)	+264,000	+265,000
<b>Fri 30th</b>	<b>JPN:</b>	00:30	Jobs/Applicants Ratio (May)	1.32	1.32
	<b>JPN:</b>	00:30	Unemployment Rate (May)	2.6%	2.6%
	<b>GER:</b>	07:00	Retail Sales (May)	+0.8% (-4.3%)	+0.0% (-4.3%)
	<b>UK:</b>	07:00	GDP (Q1: Second Reading)	+0.1% (+0.2%)	+0.1% (+0.2%)
	<b>FRA:</b>	07:45	Flash HICP Inflation (June)	-0.1% (+6.0%)	+0.2% (+5.3%)
	<b>FRA:</b>	07:45	Producer Prices (May)	-5.1% (+7.0%)	
	<b>GER:</b>	08:55	Unemployment Rate (June)	5.6%	5.6%
	<b>ITA:</b>	09:00	Unemployment Rate (June)	7.8%	7.9%
	<b>EU-20:</b>	10:00	Flash HICP Inflation (June)	-0.1% (+6.1%)	+0.3% (+5.6%)
			- Ex-Food, Energy, Alcohol & Tobacco	+0.2% (+5.3%)	+0.5% (+5.5%)
	<b>EU-20:</b>	10:00	Unemployment Rate (May)	6.5%	6.5%
	<b>US:</b>	13:30	Personal Income / Consumption	+0.4% / +0.8%	+0.4% / +0.2%
	<b>US:</b>	13:30	PCE Prices (May)	+0.4% (+4.4%)	+0.1% (+3.8%)
			- Core-PCE prices	+0.4% (+4.7%)	+0.4% (+4.7%)
	<b>US:</b>	13:30	Final Uni. Michigan Consumer Sentiment (June)	63.9	63.9

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