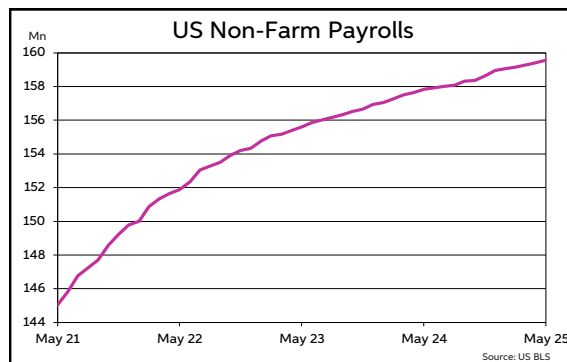


Losing the (dot)plot

- **This week's move in US rates and the dollar highlight a growing divergence between the Fed and markets, amid signs of division on the rate-setting FOMC.** With the Fed's latest 'dot-plot' indicating very little change in the median rate expectations of members compared to the March forecasts, it appeared the Fed was content to sit on the sidelines until the Autumn at least. However, comments from prominent Governors (Waller, Bowman) calling for a rate cut as soon as July suggests upcoming FOMC meetings may be more fraught affairs. Added to the uncertainty, media reports suggest President Trump may select a new Fed Chair early, in an attempt to undermine the authority of Jay Powell as he winds down his term, which ends in May 2026. The aforementioned Waller is now a warm favourite on betting markets, with his newfound dovishness no doubt a boon to his candidacy with President Trump.
- **Amidst the uncertainty, markets have moved materially ahead of the Fed's current dots, pricing in a Fed funds rate at 3.1% by end-2026, compared to an FOMC median projection of 3.6%,** and US Treasury yields are 10-15bps lower on the week. Alongside a general easing in geopolitical risk, this has added further impetus in recent days to the dollar's ongoing depreciation. EUR/USD is now trading towards the midpoint of \$1.17-1.18, raising questions of how far the greenback could fall. **As we discussed recently, in terms of important levels to watch in the near term for EUR/USD, a sustained break above the recent \$1.14-1.16 range would imply further material downside for the dollar.** The \$1.20 mark would represent the next significant resistance, as the pair has not traded on a sustained basis above this threshold since 2014.
- **While markets are focused on downside risks for the dollar, it is also worth noting the upsides.** First, the Fed still retains a bias towards limited rate cuts, with seven members pricing in no cut at all in 2025 in the June FOMC projections. This cohort remains vigilant of the inflationary risks inherent in the potential US policy shifts on trade and taxation. Indeed, this week's flash US PMIs showed a notable uptick in input and selling prices to a 3-year high in June, suggestive of inflationary pressures to come due to tariffs. Therefore, the move in rate futures may be overdone. Second, the dollar still benefits from its reserve status. The Eurozone has seen some inward capital flows in 2025, but the currency will struggle to erode the US dollar's crown as the reserve currency, given the paucity of safe assets beyond the German bund market. This TINA (there is no alternative) problem might yet provide a floor for the US dollar given the lack of safe-haven alternatives beyond US markets, even in the event of a reckless turn in US trade policy. However, attempts from President Trump to interfere more boldly in monetary policy could see markets explore more pressingly for an alternative to the dollar, which would pose significant downside risks for the US unit.
- **Turning to the week ahead, the main highlight of a holiday shortened week in the US, will be the labour market report for June, due a day earlier (Thursday) than usual.** So far in 2025, the pace of payroll expansion has slowed slightly, averaging 155k per month this year, down from 209k in Q4 and 168k per month during the full year 2024. Meanwhile, the unemployment rate has remained relatively steady, oscillating between 4.0-4.3% over the past year. It stood 4.2% in May. Similarly, wage inflation has been remarkably stable, running at +3.9% y/y throughout the first five months of the year, down marginally from an average of 4.0% last year. The consensus is for payroll growth to decelerate further, with an expansion of 110k pencilled in for June. Elsewhere, the unemployment rate is set to remain within its recent range, inching higher to 4.3%, while average earnings growth is expected to be unchanged +3.9% y/y. In terms of some other key labour market data in the US, JOLTS job openings figures for May will be released. The number of job openings was 7.4m in April, down from 7.5m in December, and from 8.5m at the start of 2024. 7.2m job openings are projected to be recorded in May.
- **Meantime, the US manufacturing and non-manufacturing ISMs will feature.** Both surveys deteriorated and printed in contraction territory in May, owing to a decline in output/business activity as well as weakness in new orders. However, a modest rebound is forecast for June, with the former rising to 48.7 and the latter to 50.3 in the month.
- **In the Eurozone, the focus will be on the flash reading of HICP inflation for June.** A gradual downward trajectory has re-emerged this year, with the headline rate declining from 2.5% in January to just 1.9% in May. Meantime, core inflation, which had been proving to be quite sticky, stuck between 2.6-2.9% since April 2024, eased to 2.4% in May. This was in large part due to a drop in services inflation to 3.2%. However, the forecast is for the downtrend to stall in June, with the headline rate edging up to 2.0% and core inflation remaining at 2.4%. Elsewhere in the Eurozone, the latest ECB monetary policy meeting account will be released, while remarks from officials at the annual ECB Forum on Central Banking will also warrant attention.
- **Meanwhile, there is a very quiet data calendar in the UK this week.**



| | Interest Rate Forecasts | | | |
|-------------|-------------------------|--------|--------|--------|
| | Current | End Q2 | End Q3 | End Q4 |
| | | 2025 | 2025 | 2025 |
| Fed Funds | 4.375 | 4.375 | 4.125 | 3.875 |
| ECB Deposit | 2.00 | 2.00 | 2.00 | 2.00 |
| BoE Repo | 4.25 | 4.25 | 4.00 | 3.75 |
| 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 Q2 | End Q3 | End Q4 |
| | | 2025 | 2025 | 2025 |
| EUR/USD | 1.1709 | 1.13 | 1.14 | 1.14 |
| EUR/GBP | 0.8541 | 0.84 | 0.84 | 0.83 |
| EUR/JPY | 169.69 | 164 | 164 | 163 |
| GBP/USD | 1.3704 | 1.35 | 1.36 | 1.37 |
| USD/JPY | 144.92 | 145 | 144 | 143 |

Current Rates Reuters, Forecasts AIB's ERU

| Date | UK & Irish Time (GMT+1) | | Release | Previous | Forecast |
|-------------------|-------------------------|--------------|--|-------------------------|----------------|
| This Week: | ECB Speakers: | | Lagarde (Mon); Lagarde (Tue); Lane, Lagarde (Wed) | | |
| | BoE Speakers: | | Bailey (Tue); Taylor (Fri) | | |
| | Fed Speakers: | | Bostic, Goolsbee (Mon); Powell (Tue); Bostic (Thu) | | |
| | | | ECB Forum on Central Banking (Mon-Wed) | | |
| Mon 30th | JPN: | 00:50 | Industrial Output (May) | -1.1% (+0.5%) | +3.5% |
| | GER | 07:00 | Retail Sales (May) | -1.1% (+2.3%) | +0.5% |
| | UK: | 07:00 | GDP (Q1: Final Reading) | +0.1% (+0.7%) | +0.7% (+1.3%) |
| | EU-20: | 09:00 | M3 Annual Money Growth (May) | +3.9% | 4.0% |
| | ITA: | 10:00 | Flash HICP Inflation (June) | +0.1% (+1.9%) | (+1.8%) |
| | GER: | 13:00 | Flash HICP Inflation (June) | +0.2% (+2.1%) | +0.3% (+2.2%) |
| Tue 1st | IRE: | 01:01 | AIB Manufacturing PMI (June) | 52.6 | |
| | GER: | 08:55 | Unemployment Rate (June) | 6.3% | 6.3% |
| | EU-20: | 09:00 | Final HCOB Manufacturing PMI (June) | 49.4 | 49.4 |
| | UK: | 09:30 | Final S&P Manufacturing PMI (June) | 46.4 | 46.4 |
| | EU-20: | 10:00 | Flash HICP Inflation (June) | -0.1% (+1.9%) | +0.2% (+2.0%) |
| | | | - Ex-Food & Energy | +0.1% (+2.4%) | +0.4% (+2.4%) |
| | | | - Ex-Food, Energy, Alcohol & Tobacco | +0.0% (+2.3%) | +0.4% (+2.3%) |
| | US: | 14:45 | Final S&P Manufacturing PMI (June) | 52.0 | 52.0 |
| | US: | 15:00 | Manufacturing ISM (June) | 48.5 | 48.7 |
| | US: | 15:00 | JOLTS Job Openings (May) | 7.4m | 7.2m |
| Wed 2nd | EU-20: | 10:00 | Unemployment Rate (May) | 6.2% | 6.2% |
| | IRE: | 11:00 | Unemployment Rate (June) | 4.0% | 4.1% |
| Thu 3rd | IRE: | 01:01 | AIB Services PMI (June) | 54.7 | |
| | JPN: | 01:30 | Final Jibun Bank Composite PMI (June) | 51.4 | 51.4 |
| | ITA: | 08:45 | Final HCOB Composite PMI (June) | 52.5 | 52.5 |
| | FRA: | 08:50 | Final HCOB Composite PMI (June) | 48.5 | 48.5 |
| | GER: | 08:55 | Final HCOB Composite PMI (June) | 50.4 | 50.4 |
| | EU-20: | 09:00 | Final HCOB Composite PMI (June) | 50.2 | 50.2 |
| | | | - Final HCOB Services PMI (June) | 50.0 | 50.0 |
| | UK: | 09:30 | Final S&P Composite PMI (June) | 50.7 | 50.7 |
| | | | - Final S&P Composite PMI | 51.3 | 51.3 |
| | EU-20: | 10:00 | ECB Monetary Policy Meeting Account (5-6th June) | | |
| | US: | 13:30 | Non-Farm Payrolls (June) | +139,000 | +110,000 |
| | | | - Unemployment Rate | 4.2% | 4.3% |
| | | | - Average Earnings Growth | 3.9% | 3.9% |
| | US: | 14:45 | Final S&P Composite PMI (June) | 52.8 | 52.8 |
| | | | - Final S&P Services PMI | 53.1 | 53.1 |
| | US: | 15:00 | Non-Manufacturing ISM (June) | 49.9 | 50.3 |
| | IRE: | 16:00 | Exchequer Returns (June 2025) | June'24: +€3.1bn | +€6.5bn |
| Fri 4th | US: | | Independence Day (Market Holiday) | | |
| | GER: | 07:00 | Industrial Orders (June) | +0.6% (5.9%) | +0.4% (+6.4%) |
| | FRA: | 07:45 | Industrial Output (May) | -1.4% | +0.4% |
| | EU-20: | 10:00 | Producer Prices (May) | -2.2% (0.7%) | -0.6% (+0.3%) |

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

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