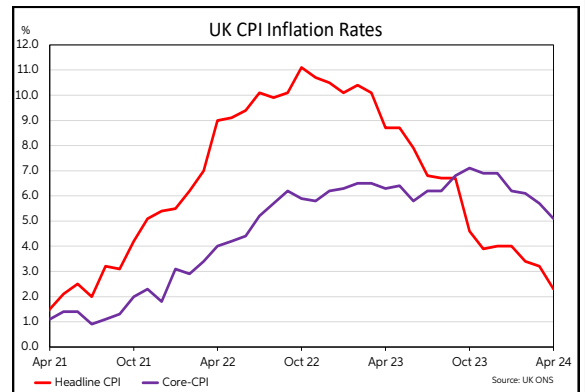


## Quelle surprise for markets

- Politics has moved to the fore in European markets in the past week, following the conclusion of the EU parliamentary elections and the shock announcement of French Assembly elections by President Macron.** While much media attention has focused on the rise of the extremes in the European Parliament, the results show the “centre” has broadly held its majority. Taking the three traditional centre groupings together (EPP, Renew, S&D), the combined share of seats is expected to be 56% compared to 59% in the last Parliament. Ursula von der Leyen’s EPP party will remain the largest single grouping at 26%, increasing its share from 2019, but Brussels will now enter a period of horse trading over the summer to decide on the key positions in both the Parliament and the European Commission.
- Nonetheless, the results in the French and German EU elections highlight growing support for more right wing and nationalistic parties in the Eurozone’s largest economies.** Polls suggest President Macron’s party is set for a heavy defeat in parliamentary elections on June 30th and July 7th. This brings into focus the prospect of a “cohabitation” with Marine le Pen’s Rassemblement National (RN) party taking the Prime Minister’s office, and with it significant control of France’s domestic and economic policy. Markets have digested this news by selling off French assets, with the large banks particularly impacted, while the spread between French and German 10-year bonds widened to the highest level since the French elections in 2017. At the same time, the euro has been on the decline, with EUR/USD testing below \$1.07 and EUR/GBP moving nearer to 84p.
- RN has tempered its Eurozone scepticism in recent years, including calls for “FRexit” from the single currency.** However, its economic policies would likely expand the French budget deficit further with its programme of higher public spending and broadly protectionist economic policies, including a “national preference” in public procurement and agricultural policy which rails against EU single market rules. In recent years, Macron’s government has struggled to reduce the deficit built up during the pandemic. At 5.5% of GDP in 2023 and forecast to decline only marginally in the coming years, the budget deficit is among the highest in the EU, while public debt is now above 110% of GDP and rising. In this context, attention is now firmly focused on the economic plans of frontrunners RN and the left wing block ahead the elections, and how a cohabitation Government could function during Macron’s remaining three years as President.
- Turning to the week ahead, the monetary policy spotlight will be on the BoE interest rate decision.** The BoE has kept Bank rate unchanged at 5.25% for the last six meetings. In May though, there was a dovish shift in the MPC voting breakdown, with two members in favour of cutting rates compared to just one previously. The other seven committee members all voted to leave rates unchanged. At the press conference in May, Governor Bailey struck a somewhat dovish tone, stating that the BoE could cut rates “possibly more so than currently priced in market rates”. However, since then an above consensus CPI inflation report means a rate cut is unlikely this week. Furthermore, the BoE has entered an extended quiet period owing to the timing of the UK election on July 4th, meaning the MPC has not had a chance to lay the groundwork for a change in policy. Current futures pricing indicates the market sees a circa 10% chance the BoE will cut rates this week. Rate cuts worth 45bps are priced-in for year end.
- Key to determining when the BoE will cut rates will be the path for inflation.** In this regard, the UK CPI data for May will be in focus. As mentioned above, CPI printed above the forecast last time round. However, it should be noted that both the headline and core rates fell, to 2.3% and 3.9%, respectively, their lowest levels since July and October 2021. Services inflation, a key indicator for the BoE, remained very elevated though, at 5.9% in April. Both the headline and core rates are expected to continue to trend lower, falling to 2.0% and 3.5% in May. Services CPI is forecast to edge down to 5.6%. Elsewhere in the UK, retail sales figures will feature. Retail sales contracted sharply by 2.3% in April, owing in part to an early Easter and relentless rain in the month. A rebound of 1.5% is pencilled in for May, but this would still leave sales 0.9% lower in year-on-year terms.
- Retail sales data are also due in the US.** Headline retail sales flat-lined in April, although they were up 3% y/y. The control group measure of retail sales - an important core sales measure - declined by 0.3% in the month. The consensus is for a 0.2% increase in headline sales in May. Similarly, having stagnated in April, US industrial production is forecast to rise by 0.3% this month. Meanwhile in the Eurozone, Q1 labour cost and wage data will garner some attention. **In terms of more timely indicators, the flash PMIs for June in the main advanced economies will be released.** In the Eurozone, the manufacturing PMI has been in contraction mode for the past two years, although it did edge higher in May. In contrast, the services reading has been in expansion territory since February. A slight increase in both sector PMIs is envisaged in May. Likewise, the UK services PMI has outperformed the manufacturing sector, albeit both are above the key 50 level. They are forecast to be little changed in June. Meantime, both of the US PMIs are in expansion territory. However, a slight decline is projected in the readings this month.



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2024	2024	2024
Fed Funds	5.375	5.375	5.125	4.875
ECB Deposit	3.75	3.75	3.50	3.25
BoE Repo	5.25	5.25	5.00	4.75
BoJ OCR	0.10	0.10	0.25	0.25

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q2	End Q3	End Q4
		2024	2024	2024
EUR/USD	1.0669	1.08	1.10	1.11
EUR/GBP	0.8427	0.86	0.87	0.87
EUR/JPY	167.76	167	171	170
GBP/USD	1.2658	1.25	1.26	1.28
USD/JPY	157.23	155	155	153

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> , de Guindos, Lane (Mon); de Guindos (Tue)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	Harker (Mon); Barkin, Logan, Kugler, Musalem, Goolsbee, Collins (Tue); Barkin (Thu)		
<b>Mon 17th</b>	<b>JPN:</b>	00:50 Machinery Orders (April)	+2.9% (+2.7%)	-3.1% (-0.1%)
	<b>ITA:</b>	09:00 Final HICP Inflation (May)	+0.2% (+0.8%)	+0.2% (+0.8%)
	<b>EU-20:</b>	10:00 Labour Costs (Q1)	(+3.4%)	
		- Wages	(+3.1%)	
	<b>US:</b>	13:30 NY Fed / Empire State Index (June)	-15.60	-9.25
<b>Tue 18th</b>	<b>EU-20:</b>	10:00 Final HICP Inflation (May)	+0.6% (+2.6%)	+0.2% (+2.6%)
		- Ex-Food & Energy	+0.6% (+2.9%)	+0.4% (+2.9%)
		- Ex-Food, Energy, Alcohol & Tobacco	+0.4% (+2.9%)	+0.4% (+2.9%)
	<b>GER:</b>	10:00 ZEW Economic Sentiment (June)	47.1	50.0
	<b>US:</b>	13:30 Retail Sales (May)	+0.0% (+3.0%)	+0.2% (+3.0%)
		- Ex-Autos	+0.2%	+0.2%
		- Control Group	-0.3%	+0.3%
	<b>US:</b>	14:15 Industrial Production (May)	+0.0% (-0.4%)	+0.3% (-0.1%)
		- Manufacturing Output	-0.3%	
		- Capacity Utilisation	78.6%	78.5%
<b>Wed 19th</b>	<b>UK:</b>	07:00 CPI Inflation (May)	+0.3% (+2.3%)	+0.4% (+2.0%)
		- Core-CPI	+0.9% (+3.9%)	+0.5% (+3.5%)
	<b>UK:</b>	07:00 PPI Output Price Inflation (May)	+0.2% (+1.1%)	
		- PPI Input Price		
	<b>IRL:</b>	<b>11:00 Residential Property Price Index (April)</b>	<b>+0.4% (+7.3%)</b>	<b>+0.4% (+7.8%)</b>
	<b>US:</b>	15:00 NAHB Homebuilder Sentiment (June)	45.0	45.0
<b>Thu 20th</b>	<b>GER:</b>	07:00 Producer Price Inflation (May)	+0.2% (-3.3%)	+0.3% (-2.0%)
	<b>UK:</b>	12:00 BoE Interest Rate Announcement	5.25%	5.25%
	<b>US:</b>	13:30 Housing Starts (May)	+1.36m / +5.7%	+1.37m / +0.7%
		- Building Permits	+1.44m / -3.0%	+1.44m / +0.0%
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 10th June)	+242,000	+238,000
	<b>US:</b>	13:30 Philly Fed Business Index (June)	4.5	4.5
	<b>EU-20:</b>	15:00 Flash Consumer Confidence (June)	-14.3	-13.5
<b>Fri 21st</b>	<b>UK:</b>	00:01 Gfk Consumer Confidence (June)	-17.0	
	<b>JPN:</b>	00:30 CPI (May)	(+2.2%)	(+2.6%)
	<b>JPN:</b>	01:30 Flash Composite PMI (June)	52.6	
	<b>UK:</b>	07:00 Retail Sales (May)	-2.3% (-2.7%)	+1.5% (-0.9%)
		- Ex-Fuel	-2.0% (-3.0%)	+1.3% (-1.0%)
	<b>FRA:</b>	07:45 INSEE Business Climate (June)	99.0	100.0
	<b>FRA:</b>	08:15 Flash HCOB Composite PMI (June)	48.9	49.4
	<b>GER:</b>	08:30 Flash HCOB Composite PMI (June)	52.4	52.8
	<b>EU-20:</b>	09:00 Flash HCOB Composite PMI (June)	52.2	52.5
		- Manufacturing / Services	47.3 / 53.2	48.0 / 53.5
	<b>UK:</b>	09:30 Flash HCOB Composite PMI (May)	53.0	53.5
		- Manufacturing / Services	51.2 / 54.8	51.0 / 53.0
	<b>US:</b>	14:45 Flash S&P Composite PMI (May)	54.5	53.5
		- Manufacturing / Services	51.3 / 54.8	50.9 / 53.4
	<b>US:</b>	15:00 Existing Home Sales (May)	+4.14m / -1.9%	+4.10m / -1.0%

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

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