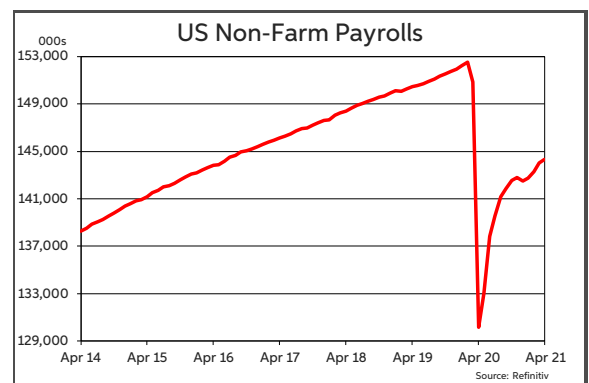


Last of the Summer Wine

- ECB Council members have taken to the airwaves in the past week to dampen market fears that monetary policy could soon start to be tightened against the backdrop of strengthening economic growth and rising inflationary pressures.** Markets had been worried in particular that the upcoming ECB Council meeting in June could see the central bank move to reduce (taper) bond purchases. This saw steady upward pressure on Eurozone bond yields, with ten year German and Italian yields rising by 30bps and 50bps, respectively, over the past two months. However, there has been a parade of ECB speakers out in the past week to assuage such fears. ECB President Lagarde said it was too early to discuss slowing its bond purchase programme, a message reinforced by other ECB speakers. It has had the desired effect, with bond yields falling in recent days, most notably in peripheral markets. Tapering by the ECB is not on the agenda this summer.
- Meanwhile, across the Atlantic, the Fed has also succeeded in calming market fears that it could soon start to tighten policy in the face of a rapid growth and a sharp rise in inflation.** As a result, ten year Treasury yields have been confined to a narrow trading range of 1.55-1.7% over the past two months. The Fed may begin discussing the issue of tapering this summer, but it has indicated that any move to start tightening policy would be signalled well in advance to markets. As such, the Fed is not expected to begin reducing asset purchases until around the turn of the year. However, to some extent, this is just postponing the day of reckoning for markets. Central banks are going to have to start scaling back their enormous monetary stimulus at some stage and the challenge will be to avoid causing too much dislocation in markets. The ECB is likely to revert to a slower pace of asset purchases in the autumn, with the Fed taper likely not far behind. Meanwhile, in the UK, some MPC members have suggested that BoE rates could start to be hiked from next year.
- Next week's US employment report for May could present another tricky challenge for markets. The April rise in payrolls came in at just 266,000, far below the forecast one million increase.** This left payrolls still some 8.2 million below their pre-Covid level. The growth in employment in the household survey was equally dismal. The JOLTS survey, though, shows 8 million job openings in the US so it is hard to explain the anaemic payroll growth. The consensus forecast is for a 700,000 rise in payrolls in May. A much bigger increase is possible after the weak April figure, which could stoke market fears of an overheating economy.
- On the other hand, another low payroll figure could prove to be a concern.** Both surveys and media reports suggest that firms are struggling to recruit staff as businesses re-open. It may be that enhanced state income support payments are discouraging people from returning to work, although, these will start to be wound down soon in some states. It is also possible that Covid fears are keeping some people out of the workforce. There may have been a change in lifestyle brought about by the pandemic as well, whereby people are prepared to work less and accept lower incomes. All this could point to scarring from the pandemic taking the form of much lower labour force participation rather than high unemployment. The outcome would almost certainly be more rapid wage growth and a risk that the rise in inflation this year becomes more embedded. Markets have some tricky waters to negotiate yet.
- As well as the aforementioned payroll report, there are other labour market data due in the US this week.** It is anticipated that the unemployment rate moved lower in May to 5.9% from 6.1%, though, this is still well above the 3.5% pre-pandemic jobless rate. The only other releases of note are the manufacturing and non-manufacturing ISMs. The consensus is for both to remain practically unchanged, at elevated levels, of 61.0 (manufacturing) and 63.0 (non-manufacturing), respectively.
- In the Eurozone, inflation data for May are due.** Headline HICP jumped to a two-year high of 1.6% in April, from 1.3%, owing largely to base effects in energy prices. Indeed, the ex-food & energy reading of HICP actually declined to 0.8% in April, from an already subdued 1% in March. However, inflation is set to move higher in the Eurozone over the next few months as the economy continues to re-open. Headline HICP is projected to reach 1.9% in May, although the core rate is forecast to remain very subdued at 0.9%. In any case, ECB officials have stressed that any spike higher in prices this year will likely be temporary. Elsewhere in the Eurozone, retail sales are expected to fall by 0.5% in April. Meanwhile, the consensus is that the Eurozone unemployment rate remained at 8.1% in May.
- There is a sparse UK macro calendar again this week, while on the home front, the National Accounts for Q1 headline a busy docket.** Exchequer Returns, unemployment data and PMIs for May are all due as well.



	Interest Rate Forecasts			
	Current	End Q2 2021	End Q3 2021	End Q4 2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
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 2021	End Q3 2021	End Q4 2021
EUR/USD	1.2167	1.21	1.21	1.20
EUR/GBP	0.8600	0.86	0.87	0.87
EUR/JPY	133.82	132	132	131
GBP/USD	1.4146	1.41	1.39	1.38
USD/JPY	109.99	109	109	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Wed), Lagarde (Fri)		
	BoE Speakers:	Bailey (Tue); Bailey (Thu)		
	Fed Speakers:	Brainard (Tue); Harker, Bostic, Evans, Kaplan (Wed); Harker, Quarles, Bostic (Thu), Powell (Fri)		
Mon 31st	US/UK:	Public Holiday		
	JPN: 00:50	Industrial Output (April)	+1.7%	+4.1%
	JPN: 00:50	Retail Sales (April)	(+5.2%)	(+15.3%)
	ITA: 10:00	Flash HICP (May)	+0.9% (+1.0%)	+0.1% (+1.3%)
	EU-19: 11:00	M3 Money Supply	(+10.1%)	(+9.5%)
	GER: 13:00	Flash HICP (May)	+0.5% (+2.1%)	+0.3% (+2.4%)
Tue 1st	IRL: 01:01	AIB Manufacturing PMI (May)	60.8	
	JPN: 01:30	Jibun Manufacturing PMI (May)	52.5	
	UK: 07:00	Nationwide House Prices (May)	+2.1% (+7.1%)	+0.8% (+9.5%)
	ITA: 08:45	Manufacturing PMI (May)	60.7	62.0
	FRA: 08:50	Final Markit Manufacturing PMI (May)	59.2	59.2
	GER: 08:55	Final Markit Manufacturing PMI (May)	64.0	64.0
	GER: 08:55	Unemployment Rate (May)	6.0%	6.0%
	ITA: 09:00	Unemployment Rate (April)	10.1%	
	EU-19: 09:00	Final Markit Manufacturing PMI (May)	62.8	62.8
	UK: 09:30	Final CIPS / Markit Manufacturing PMI (May)	66.1	66.1
	ITA: 10:00	Q1 GDP (Final Reading)	-0.4% (-1.4%)	-0.4% (-1.4%)
	EU-19: 10:00	Flash HICP (May)	(+1.6%)	(+1.9%)
		- Ex-Food & Energy	(+0.8%)	(+0.8%)
	US: 14:45	Final Manufacturing PMI (May)	61.5	61.5
	US: 15:00	Manufacturing ISM (May)	60.7	61.0
Wed 2nd	GER: 07:00	Retail Sales (April)	+7.7% (+11.0%)	-1.5% (+11.9%)
	UK: 09:30	BoE Mortgage Approvals (April)	+82,735	+85,000
	EU-19: 10:00	Producer Prices (April)	+1.1% (+4.3%)	+0.9% (+7.3%)
	IRL: 11:00	Unemployment Rate (May)	5.8%	5.8%
		- Covid-19 Adjusted Rate	22.4%	20.0%
Thu 3rd	IRL: 01:01	AIB Services PMI (May)	57.7	
	JPN: 01:30	Services PMI (May)	49.5	
	ITA: 08:45	Composite PMI (May)	51.2	
		- Services	47.3	52.0
	FRA: 08:50	Final Markit Composite PMI (May)	57.0	57.0
		- Services	56.6	56.6
	GER: 08:55	Final Markit Composite PMI (May)	56.2	56.2
		-Services	52.8	52.8
	EU-19: 09:00	Final Markit Composite PMI (May)	56.9	56.9
		- Services	55.1	55.1
	UK: 09:30	Final CIPS / Markit Composite PMI (May)	62.0	62.0
		- Services	61.8	61.8
	US: 13:30	Initial Jobless Claims (w/e 24th May)	+406,000	
	US: 14:45	Final Markit Composite PMI (May)	68.1	68.1
		- Services	70.1	70.1
	US: 15:00	Non-Manufacturing ISM (May)	62.7	63.0
	IRL: 16:30	Exchequer Returns (May)	May'21: -€6.1bn	-€5.5bn
Fri 4th	EU-19: 10:00	Retail Sales (April)	+2.7% (+12.0%)	-0.5% (+26.0%)
	IRL: 11:00	National Accounts (Q1 2021)		
		- GDP (Q1 2021)	-5.1% (+1.5%)	
	US: 13:30	Non-Farm Payrolls (May)	+266,000	+700,000
		- Unemployment Rate	6.1%	5.9%
		- Average Earnings	+0.7% (+0.3%)	+0.2% (+1.6%)

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

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