

## End of the Line?

- Markets remain of the view in the aftermath of the past week's Fed and ECB policy meetings - which saw them both raise rates by 25bps - that the rate hiking cycles in the US and Eurozone have either drawn to a close or are very close to the end.** US futures contracts see Fed rates rising by just a further 10bps over the remainder of the year, bringing them up to 5.43%. This is still within the new 5.25-5.50% range for the fed funds rate, and implies no further increase in rates. Markets are a bit less sure that Eurozone rates have peaked. They are not expecting a rate hike at the next ECB meeting in September, but contracts see rates being around 15bps higher by end year, suggesting investors are hedging their bets about a possible 25bps hike in Q4.
  - It is noteworthy that both central banks are no longer providing guidance for markets on the near-term path for interest rates, and instead have adopted a data-dependent approach to future policy decisions.** This allows them to keep their options open about whether or not rates need to be raised further. There is much optimism in US markets that with headline inflation having fallen sharply and core inflation now on a moderating path, the Fed's rate tightening job is done. The FOMC statement, though, simply noted that inflation remains elevated. More pertinently, Fed Chair Powell commented that getting inflation back down to its 2% target, "is likely to require a period of below trend growth and some softening in labour market conditions".
  - This has not been the case in the first half of 2023.** GDP grew by 2.4% annualised in Q2, after increasing by 2.0% in Q1. This is above trend growth with the economy at full employment. In this regard, the unemployment rate stood at 3.6% in June, within the very low 3.4-3.7% range it has occupied since March 2022. Unless these data soften appreciably in the second half of the year, the Fed may well hike rates again, even if inflation remains on a downward path. Indeed, the Fed's own dot-plot or interest rate projections published in June, shows it expects that rates will be raised to a 5.50-5.75% range by end year, implying one more rate hike. Thus, we are surprised that markets are attaching such a low probability to the likelihood of another US rate hike.
  - Meantime, markets are going some way towards pricing in a further 25bps hike from the ECB, notwithstanding the weakness in activity since last autumn.** The main focus for the ECB is likely to remain on underlying inflation, with the core HICP rate both sticky and high at 5.5%. This is a long way above the 2% target. The ECB is taking some comfort from the fact that rate hikes are resulting in a tightening of financial conditions, which is dampening demand, and should help bring inflation back towards target. However, the ECB will need to see evidence of this in inflation data over the next few months, including wages and labour costs, if policy is to be put on hold. The next set of ECB staff macro projections due in September, would also likely need to see inflation forecasts revised lower. It is not surprising then, that the ECB has left its options open about raising rates again.
  - This week, it's the turn of the Bank of England to enter the monetary policy spotlight.** At its last meeting in June, the BoE raised rates by 50bps, compared to the 25bps clip it implemented in March and May. The decision to re-accelerate the pace of rate hikes was taken on the back of higher than expected wage and CPI inflation data. However, more recently, inflation has showed tentative signs of easing, although, it remains at very elevated levels. Following the release of the June CPI data, market rate hike expectations have softened considerably. **Investors are leaning towards a smaller 25bps rate hike this week, although, a 50bps increase has not been completely priced out.** Overall, around 85bps of further tightening is priced in for between now and the end of the year. Meanwhile, the August Monetary Policy Report containing the BoE's updated assessment of the economic outlook and the post-meeting press conference will garner very close attention.
- | Month  | Payrolls (Mn) |
|--------|---------------|
| Jun 17 | 144.5         |
| Jun 18 | 146.5         |
| Jun 19 | 148.5         |
| Jun 20 | 132.5         |
| Jun 21 | 144.5         |
| Jun 22 | 148.5         |
| Jun 23 | 151.5         |

Source: US BLS
- In the Eurozone, a busy data schedule includes flash HICP inflation for July.** Headline inflation has fallen sharply from its peak of 10.6% last October. It declined to 5.5% in June, down from 6.1% in May. Core inflation, though, has proven to be much more sticky. It has been in a narrow 5.2-5.7% range since December, and stood at 5.5% as well, in June. The consensus is for the headline rate to ease to 5.3%, and the core rate to 5.4%. Elsewhere, the preliminary reading of Eurozone GDP for Q2 is due. In Q1, GDP stagnated, meaning the Eurozone economy narrowly avoided entering technical recession, as it contracted by 0.1% in Q4. A meagre 0.2% increase is pencilled in for Q2, although, data from France, Spain and Ireland show a larger rise.
  - Meantime, the US labour market report for July will be of keen interest this week.** Recently, labour market conditions have softened slightly, but they remain very tight overall. Payroll growth was robust during the first half of the year, but June's 209k increase, was the lowest since they unexpectedly fell in December 2020. However, average earnings growth maintains solid momentum, rising by 0.4% per month in Q2. In year-on-year terms, average earnings stood at 4.4% in June. Payrolls are projected to increase by 200K and average earnings are forecast to rise by 0.3% in July, with the year-on-year rate easing to 4.2%. The jobless rate is expected to remain at 3.6%. Elsewhere in the US, both the manufacturing and non-manufacturing ISMs are expected to be little changed in July, with the former in contraction territory, and the latter in expansion mode.

	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2023	2023	2024
Fed Funds	5.375	5.375	5.375	5.375
ECB Deposit	3.75	4.00	4.00	4.00
BoE Repo	5.00	5.50	5.75	5.75
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 Q3	End Q4	End Q1
		2023	2023	2024
EUR/USD	1.1029	1.12	1.13	1.14
EUR/GBP	0.8569	0.86	0.87	0.87
EUR/JPY	154.74	159	161	162
GBP/USD	1.2868	1.30	1.30	1.31
USD/JPY	140.29	142	142	142

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Panetta (Tue)		
	<b>BoE Speakers:</b>			
	<b>Fed Speakers:</b>	<b>Barkin (Thu)</b>		
<b>Mon 31st</b>	<b>JPN:</b>	00:50 Retail Sales (June)	(+5.7%)	(+5.9%)
	<b>GER:</b>	07:00 Retail Sales (June)	+0.4% (-3.6%)	+0.2% (-1.1%)
	<b>ITA:</b>	09:00 GDP (Q2: Flash Reading)	+0.6% (+1.9%)	+0.0% (+0.9%)
	<b>UK:</b>	09:30 Mortgage Approvals (June)	+50,524	+49,000
	<b>EU-20:</b>	10:00 Flash HICP Inflation (July)	+0.3% (+5.5%)	-0.1% (+5.3%)
		- Ex-Food & Energy	(+6.8%)	(+6.5%)
		- Ex-Food, Energy, Alcohol & Tobacco	+0.4% (+5.5%)	-0.2% (+5.4%)
	<b>EU-20:</b>	10:00 GDP (Q2: Preliminary Reading)	-0.1% (+1.0%)	+0.2% (+0.5%)
	<b>ITA:</b>	10:00 Flash HICP Inflation (July)	+0.1% (+6.7%)	-1.2% (+6.4%)
<b>Tue 1st</b>	<b>JPN:</b>	00:30 Jobs/Applicants Ratio (June)	1.31	1.32
	<b>JPN:</b>	00:30 Unemployment Rate (June)	2.6%	2.5%
	<b>IRL:</b>	<b>01:01 AIB Manufacturing PMI (July)</b>	<b>47.3</b>	
	<b>GER:</b>	08:55 Unemployment Rate (July)	5.7%	5.7%
	<b>EU-20:</b>	09:00 Final HCOB Manufacturing PMI (July)	42.7	42.7
	<b>UK:</b>	09:30 Final S&P / CIPS Manufacturing PMI (July)	45.0	45.0
	<b>EU-20:</b>	10:00 Unemployment Rate (June)	6.5%	6.5%
	<b>US:</b>	14:45 Final S&P Manufacturing PMI (July)	49.0	49.0
	<b>US:</b>	15:00 Manufacturing ISM (July)	46.0	46.8
<b>Wed 2nd</b>	<b>IRL:</b>	<b>11:00 Unemployment Rate (July)</b>	<b>3.8%</b>	<b>3.9%</b>
	<b>US:</b>	13:15 ADP Employment (July)	+497,000	+190,000
	<b>IRL:</b>	<b>16:30 Exchequer Returns</b>	<b>Jul'22: +€5.0bn</b>	<b>Jul'23: +€1.2bn</b>
		- Excluding Transfer to NRF		<b>+€5.2bn</b>
<b>Thu 3rd</b>	<b>IRL:</b>	<b>01:01 AIB Services PMI (July)</b>	<b>56.8</b>	
	<b>JPN:</b>	01:30 Final Jibun Composite PMI (July)	52.1	52.1
	<b>ITA:</b>	08:45 HCOB Composite PMI (July)	49.7	
	<b>FRA:</b>	08:50 Final HCOB Composite PMI (July)	46.6	46.6
	<b>GER:</b>	08:55 Final HCOB Composite PMI (July)	48.3	48.3
	<b>EU-20:</b>	09:00 Final HCOB Composite PMI (July)	48.9	48.9
		- Final HCOB Services PMI	51.1	51.1
	<b>UK:</b>	09:30 Final CIPS / S&P Composite PMI (July)	50.7	50.7
		- Final CIPS / S&P Services PMI	51.5	51.5
	<b>EU-20:</b>	10:00 Producer Prices (June)	-1.9% (-1.5%)	-0.2% (-3.1%)
	<b>UK:</b>	12:00 BoE Interest Rate Announcement		
		- Bank Rate	5.00%	5.25%
	<b>UK:</b>	12:30 BoE Monetary Policy Report Press Conference		
	<b>US:</b>	13:30 Initial jobless Claims (w/e 24th July)	+221,000	+227,000
	<b>US:</b>	14:45 Final S&P Composite PMI (July)	52.0	52.0
		- Final S&P Services PMI	52.4	52.4
	<b>US:</b>	15:00 Non-Manufacturing ISM (July)	53.9	53.0
<b>Fri 4th</b>	<b>GER:</b>	07:00 Industrial Orders (June)	+6.4%	-1.5%
	<b>EU-20:</b>	10:00 Retail Sales (June)	+0.0% (-2.9%)	+0.2% (-1.5%)
	<b>US:</b>	13:30 Non-Farm Payrolls (July)	+209,000	+200,000
		- Unemployment Rate	3.6%	3.6%
		- Average Earnings	+0.4% (+4.4%)	+0.3% (+4.2%)

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

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