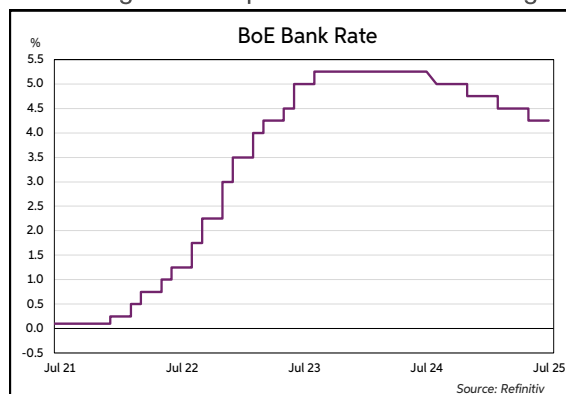


We're going through changes

- **Following a bumper week of macro data and tariff announcements, the directional changes of the dollar raise the question of whether the currency can sustain its recent gains.** The trade-weighted dollar index (DXY) is now up c.1.2% on the week, while the greenback is over 1.5% higher against the euro. However, the currency had posted over 2% gains before the release of a soft jobs report on Friday.
- **Looking at the trade 'deals' which have been rapidly concluded in recent days, they suggest that the landing zone for US tariffs is not far from those announced on Liberation Day in April.** For example, the 15% rate agreed with the EU, Japan, and South Korea compares to an initial range of 20-25%, while other major trading partners, such as Canada, have received sharply higher rates of 35% on some sectors. According to the Yale Budget Lab, this leaves the average effective US tariff at 16%, compared to the pre-Trump rate of 2.5% - a historically rapid increase which brings the US tariffs back to 1930s levels. With the inflationary impact on US consumers yet to become fully apparent, markets have largely looked through the current salvo of tariff announcements. The S&P 500 is now nearly 6% higher year-to-date.
- **More pertinently, macro data and the Fed's actions (or lack of) have been the primary drivers of the currency over the past week.** Investors interpreted Chair Powell's equivocating comments on a rate cut as a hawkish tilt in guidance. Market rate expectations firmed in the aftermath of Powell's remarks, reflecting the lack of any clear signal about a September cut. However, the weak jobs report on Friday has now reset rate expectations to below where they were at the start of the week, with two 25bp cuts now priced in by end-2025, compared to just one following the Fed meeting.
- **All in, there remains risks on both sides to the US economy and the dollar.** A strong economy has supported the currency of late, but as the market episode in April highlighted, this support could quickly unwind if tentative trade deals unravel in the coming months, including the uneasy truce with China. The unusual split amongst the Fed's Board of Governors on monetary policy this week (two voted for a 25bp cut) also highlights the nascent risk to the independence of US monetary policy as the government piles pressure on Chair Powell in the final months of his term, and candidates jockey for position in the race to be the next Chair. An erosion of the Fed's mandate remains a key downside risk for US markets and the dollar in the near term. While President Trump is riding high on his political wins (trade deals, tax bill), the dollar is still around 10% lower against the euro year-to-date, and its recent gains have proved somewhat fleeting in the face of a weak jobs report.
- **The monetary policy spotlight will turn to the Bank of England (BoE) this week.** In the first half of the year, the BoE cut rates twice, building on two rate cuts last year, meaning that a cumulative 100bps of policy easing has been implemented so far this cycle. The Bank rate is currently at 4.25%. Thus, while the BoE has cut rates at a steady and gradual pace (once every second meeting), the decisions have been fraught with disagreement amongst the Monetary Policy Committee (MPC). This includes the last meeting in June, when six members voted for no change to rates, whereas three dissenters favoured a 25bps cut. However, there was a dovish tilt to the BoE's communications in June, with Governor Bailey noting that he "expects that the path of interest rates will continue to be gradually downwards". **Against this backdrop, and given the BoE will have updated macro forecasts (Monetary Policy Report) to inform its policy deliberations, we are of the view that the BoE will cut rates by 25bps on Thursday.** Futures pricing suggests that there is around an 85% chance the BoE will lower Bank rate to 4.00%.



Date	Bank Rate (%)
Jul 21	0.0
Jul 22	0.5
Jul 23	4.0
Jul 24	4.25
Jul 25	4.0

Source: Refinitiv
- **Data-wise, the macro calendar is relatively quiet on both sides of the Atlantic.** In the US, the only release of note will be the non-manufacturing ISM for July. Having inched just into contraction territory in May for the first time since the end of Q2 2024, at 49.9, it rebounded to 50.8 in June. A further slight increase to 51.5 is pencilled in for July, consistent with an acceleration in the pace of expansion in the sector.
- **Meantime in the Eurozone, retail sales data for June are due.** Retail sales rose steadily throughout the spring, by 0.3-0.4% per month, before declining by a sharp 0.7% in May. Furthermore, the contraction in May was broad-based, with food, non-food & fuel, and fuel sales falling in the month. The consensus is for a 0.4% rebound in June. Elsewhere in the Eurozone, a slew of updates on the industrial side of the German (output and orders), French and Italian (both just production) economies will feature.

	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2025	2025	2026
Fed Funds	4.375	4.125	3.875	3.625
ECB Deposit	2.00	2.00	2.00	2.00
BoE Repo	4.25	4.00	3.75	3.50
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 Q3	End Q4	End Q1
		2025	2025	2026
EUR/USD	1.1565	1.18	1.19	1.20
EUR/GBP	0.8712	0.86	0.85	0.84
EUR/JPY	171.33	170	170	168
GBP/USD	1.3271	1.37	1.40	1.43
USD/JPY	148.13	144	143	140

Current Rates Reuters, Forecasts AIB's ERU

ECONOMIC DIARY

Monday 4th - Friday 8th August

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
This Week:	ECB Speakers:		Cook, Collins (Wed); Musalem (Fri)		
	BoE Speakers:				
	Fed Speakers:				
Mon 4th	IRE:		August Bank Holiday (Public Holiday)		
	EU-20:	09:30	Sentix Index (August)	4.5	8.0
	US:	15:00	Factory Orders (June)	+8.2%	-4.7%
Tue 5th	JPN:	01:30	Final Jibun Bank Composite PMI (July)	51.5	51.5
	FRA:	07:45	Industrial Output (June)	-0.5%	+0.3%
	ITA:	08:45	Final HCOB Composite PMI (July)	51.1	51.1
	FRA:	08:50	Final HCOB Composite PMI (July)	49.2	49.2
	GER:	08:55	Final HCOB Composite PMI (July)	50.4	50.4
	EU-20:	09:00	Final HCOB Composite PMI (July)	50.6	50.6
			-Final HCOB Services PMI	50.5	50.5
	UK:	09:30	Final S&P Composite PMI (July)	52.0	52.0
			- Final S&P Services PMI	52.8	52.8
	EU-20:	09:30	Producer Prices (June)	-0.6% (0.3%)	+0.8% (+0.6%)
	US:	14:45	Final S&P Composite PMI (July)	52.9	52.9
			-Final S&P Services PMI (July)	52.9	52.9
	US:	15:00	Non-Manufacturing ISM (July)	50.8	51.5
Wed 6th	IRE:	01:01	Final AIB Services PMI (July)	51.5	
	GER:	07:00	Industrial Orders (June)	-1.4%	+1.0%
			-Manufacturing Orders	+6.2%	
	ITA:	09:00	Industrial Output (June)	-0.7% (-0.9%)	
	EU-20:	10:00	Retail Sales (June)	-0.7% (1.8%)	+0.4% (+2.6%)
	IRE:	16:30	Exchequer Returns (July 2025)	Jul'24: +€3.4bn	
Thu 7th	GER:	07:00	Industrial Output (June)	+1.2% (+1.2%)	-0.5%
	GER:	07:00	Trade Balance (June)	€18.4b	
			-Exports	-1.4%	+0.3%
	IRE:	11:00	Unemployment Rate (July)	+4.0%	4.1%
	IRE:	11:00	CPI Inflation (July)	+0.5% (+1.8%)	
	UK:	12:00	BoE MPC Bank Rate Decision	+4.25%	4.00%
	UK:	12:30	BoE Monetary Policy Report Press Conference		
	US:	13:30	Initial Jobless Claims (w/e 28th July)	+218,000	+220,00
Fri 8th					

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

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