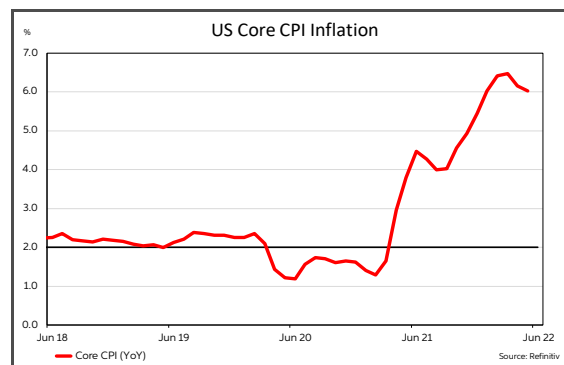


## Ahead of the Posse

- **It has been another week of big moves across financial markets, with growing fears of recession the main catalyst.** Oil prices declined by close to 10% on Tuesday, falling back to \$100 a barrel (although it has since recovered to \$105). Meanwhile, downward pressure has emerged on some other commodity prices also recently as global growth slows, including copper and lumber, though commodity prices still remain elevated generally. Indeed, gas prices spiked higher on the very day oil prices fell on concerns about major disruptions to supplies, with talk of gas rationing in Europe this winter. Meantime, stock markets remain very volatile while many fixed income markets are beset with very poor liquidity.
- **Amidst all this turmoil, the ever reliable US dollar in times of stress, remains in the ascendancy.** Major support levels in forex markets gave way this week, with the euro falling to 20 year lows against the dollar as the key rate of \$1.04 failed to hold. Meanwhile, sterling fell below \$1.20. While it has dropped below this level for short intervals in recent years, the UK currency has not traded below \$1.20 for any sustained period of time since the mid-1980s. The yen remains very weak, trading at levels against the dollar not seen since 1998. US dollar strength is broad based, with notable gains also made against the Canadian, Aussie and Kiwi dollars in the past week.
- **It is not just a flight-to-quality of safe-haven flows into the world's largest reserve and most liquid currency at a time of turmoil in financial markets that is driving the US dollar higher.** Interest rate differentials are playing a key part also. The Fed is well on its way in terms of tightening policy, raising the funds rate to a 1.5-1.75% range. It has indicated that further rate hikes of 75bps this month and 50bps in September can be expected, which would take US rates up to near 3%. By contrast, the ECB has not even started to hike yet, with the deposit rate still at -0.5%, the BoJ has indicated it will not be raising rates at all, while the BoE has only been slowly increasing rates in 25bps steps so far.
- **With some signs of an easing in commodity prices and growing fears of a recession, markets are coming to the view that there may be only a limited tightening of monetary policy in many economies, outside of the US.** ECB rates are seen rising to just 0.75% by end year, which would leave them well below US rates, which are expected to reach 3.25%. The breach of support at \$1.04 for the euro, opens the door for a fall to parity or below for EUR/USD. The last time the euro dropped below parity, it spent almost three years there over the period 2000-2002. There is a risk of a repeat performance if the ECB at its Council meeting later this month (July 21st), fails to convince markets that significant rate hikes are in prospect to bring inflation back under control.
- **The Fed raised rates by 75bps in June, partly due to a further spike higher in CPI inflation and the inflation expectations component of consumer sentiment (Uni. of Michigan measure).** As a result, the latest reading of both will be of interest this week. Headline CPI jumped by 1% in May, lifting the yearly rate to 8.6% from 8.3%. Although the core rate rose by a more modest 0.6% m/m, meaning the yearly rate actually slowed for the second consecutive month, it still stood at 6% - well above the Fed's 2% inflation target. A similar pattern is expected in June, with the core rate projected to ease back to 5.7% y/y, while another 1% m/m increase in the headline index is forecast to edge the annual rate up to 8.7%.
- **Meanwhile, the long-term inflation expectations component of the consumer sentiment survey initially printed at 3.3% in June.** However, this was later revised to 3.1% the upper end of the 2.9-3.1% range that has been in place over the past ten-months. The latest FOMC meeting minutes indicate that the Fed is concerned that long-run inflation expectations may become unanchored. Therefore, the long-term inflation expectations component of the survey will be closely assessed. The headline consumer sentiment index plunged to its lowest level in the 75-year history of the survey in June. A further deterioration to 49.4 from 50.0 is anticipated in July.
- **Elsewhere in the US, retail sales and industrial production data for June are due.** Retail sales are forecast to rebound by 0.8% in June, having fallen by 0.3% in May. Meantime, industrial production which has performed quite strongly so far in 2022, despite supply chain issues, is projected to rise by 0.2% in June. **In contrast, Eurozone industrial production has been quite weak in 2022.** However, an increase of 0.2% in output is also pencilled in for May.
- **In the UK, the main release of note will be the monthly reading of GDP for May.** GDP contracted in March and April, partly due to a sharp fall in test and trace activity. It is envisaged growth stagnated in May. Similarly industrial production is expected to have stood still in the month.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
	2022	2022	2022	2023
Fed Funds	1.625	2.625	3.375	3.375
ECB Deposit	-0.50	0.25	0.75	1.00
BoE Repo	1.25	1.75	2.25	2.25
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
	2022	2022	2022	2023
EUR/USD	1.0163	1.02	1.04	1.06
EUR/GBP	0.8466	0.86	0.87	0.88
EUR/JPY	138.22	141	145	148
GBP/USD	1.2002	1.19	1.20	1.20
USD/JPY	135.98	138	139	140

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>				
	<b>BoE Speakers:</b>		<b>Bailey (Mon)</b>		
	<b>Fed Speakers:</b>		Williams (Mon); Bostic (Fri)		
			<b>G20 Finance Ministers Meeting (Fri 15th)</b>		
<b>Mon 11th</b>	<b>JPN:</b>	00:50	Machinery Orders (May)	+10.8% (+19.0%)	-5.5% (+5.8%)
	<b>ITA:</b>	09:00	Retail Sales (May)	+0.0% (+8.4%)	
<b>Tue 12th</b>	<b>GER:</b>	10:00	ZEW Economic Sentiment (July)	-28.0	-38.0
	<b>US:</b>	11:00	NFIB Small Business Optimism (June)	93.1	
<b>Wed 13th</b>	<b>CHINA:</b>	04:00	Trade Balance (June)	+\$78.8bn	+\$75.7bn
			- Exports	(+16.9%)	(+12.0%)
	<b>UK:</b>	07:00	GDP (May)	-0.3% (+3.4%)	+0.0% (+2.9%)
			- 3m/3m	(+0.2%)	+0.1%
	<b>UK:</b>	07:00	Industrial Output (April)	-0.6% (+0.7%)	+0.0% (-0.3%)
			- Manufacturing Output	-1.0% (+0.5%)	+0.1% (+0.3%)
	<b>UK:</b>	07:00	Goods Trade Balance (April)	-£20.9bn	
			- Non-EU	-£11bn	
	<b>GER:</b>	07:00	Final HICP (June)	-0.1% (+8.2%)	-0.1% (+8.2%)
	<b>FRA:</b>	07:45	Final HICP (June)	+0.8% (+6.5%)	+0.8% (+6.5%)
	<b>SPA:</b>	08:00	Final HICP (June)	+1.8% (+10.0%)	+1.8% (+10.0%)
	<b>EU-19:</b>	10:00	Industrial Production (May)	+0.4% (-2.0%)	+0.2% (+0.2%)
	<b>IRL:</b>	<b>11:00</b>	<b>Residential Property Price Index (May)</b>	<b>+0.1% (+14.2%)</b>	<b>+0.3% (+13.7%)</b>
	<b>US:</b>	13:30	CPI (June)	+1.0% (+8.6%)	+1.0% (+8.7%)
			- Core	+0.6% (+6.0%)	+0.6% (+5.7%)
<b>Thu 14th</b>	<b>IRL:</b>	<b>11:00</b>	<b>CPI Inflation (June)</b>	<b>+0.9% (+7.8%)</b>	<b>+1.3% (+9.1%)</b>
			<b>- HICP Inflation</b>	<b>+1.1% (+8.3%)</b>	<b>+1.3% (+9.6%)</b>
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 4th July)	+235,00	+240,000
	<b>US:</b>	13:30	PPI Final Demand (June)	+0.8% (+10.8%)	+0.8% (+10.7%)
			- Ex-Food & Energy	+0.5% (+8.3%)	+0.5% (+9.1%)
<b>Fri 15th</b>	<b>CHINA:</b>	03:00	GDP (Q2: First Reading)	+1.3% (+4.8%)	
	<b>CHINA:</b>	03:00	Industrial Production (June)	(+0.7%)	
	<b>CHINA:</b>	03:00	Retail Sales (June)	(-6.7%)	
	<b>ITA:</b>	09:00	Final HICP (June)	+1.2% (+8.5%)	+1.2% (+8.5%)
	<b>EU-19:</b>	10:00	Total Trade Balance (May)	-€32.4bn	
	<b>US:</b>	13:30	NY Fed Manufacturing (July)	-1.20	-1.25
	<b>US:</b>	13:30	Retail Sales (June)	-0.3% (+8.1%)	+0.8% (+8.2%)
			- Ex-Autos	+0.1%	+0.6% (+9.3%)
			- Control	+0.0%	
	<b>US:</b>	13:30	Industrial Production (June)	+0.2% (+5.8%)	+0.2% (+5.2%)
			- Manufacturing Output	-0.1%	+0.2%
			- Capacity Utilisation	79.0%	80.0%
	<b>US:</b>	15:00	Preli. Uni. Michigan Consumer Sentiment (July)	50.0	49.4
			- 5-year Inflation Expectations	3.1%	

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

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